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Real estate finance

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Real estate finance. Committee reports, addresses, discussions and special bulletins ... issued by the Mortgage and finance division of the National association of real estate boards. Chicago, October 1, 1923. [Chicago, National association of real estate boards, 1923.]
169 p. charts, forms, map, 29 cm.

Loose leaves in binder.

RESTRICTIONS ON USE:

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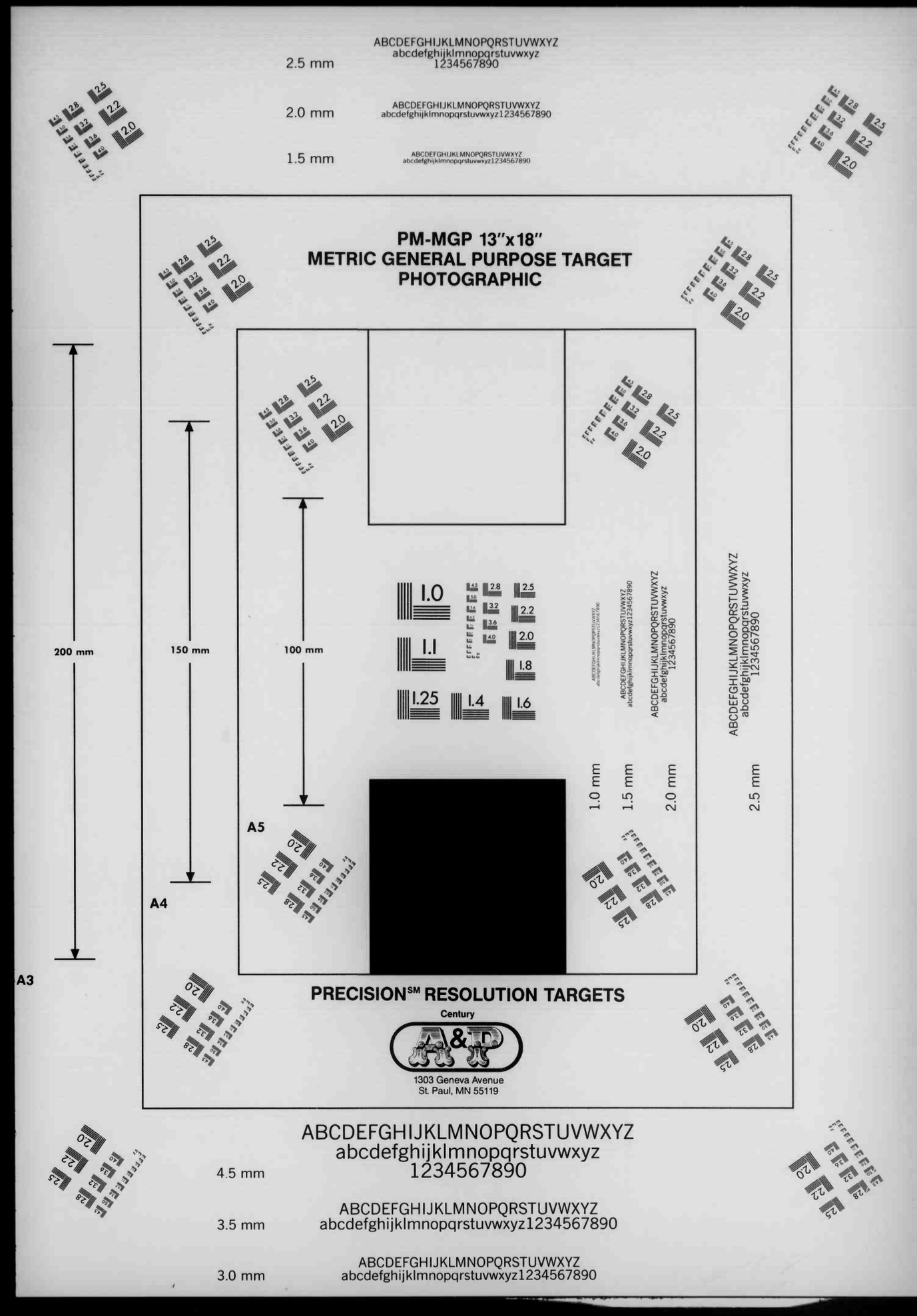
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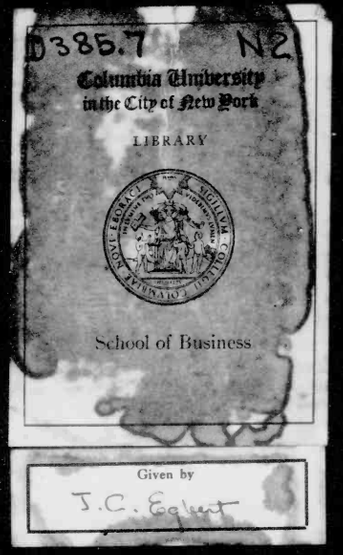
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TABLE OF CONTENTS

		Page
1.	Organization of the Division.....Hiram S. Cody, Chairman	5
2.	Members of the Division (as of October 1, 1923)	7
3.	First Sessions of Mortgage and Finance Division	12
	First Mortgages	
4.	Insurance Company Mortgages.....Walter Stabler, New York	13
5.	New Methods in First Mortgages.....C. H. Corbett, Canton, Ohio	21
6.	Real Estate Mortgages as Investments for Life Insurance Companies	27
7.	Insurance Companies' Mortgage Loans.....S. S. Thorpe, Minneapolis	43
8.	Mortgages as Liquid Security.....New York Legislative Committee	51
9.	Amortized Loans.....Stanley H. Trezevant, Memphis	52
10.	Housing Loans.....Forest Adair, Jr., Atlanta	54
11.	Commission Rates.....W. W. Hazzard, Birmingham	56
	Second Mortgages	
12.	Problem of Second Mortgages.....Samuel N. Reep, Minneapolis	57
	Building and Loan Associations	
13.	B. and L.'s as Makers of Second Mortgages..Samuel Stern, Philadelphia	65
	Bond Issues	
14.	Bond Issue Loans.....Townley Culbertson, Kansas City	77
15.	Licensing Mortgage Bond Houses.....Earle G. Krumrine, Chicago	80
	Mortgage Safety	
16.	Safety of Mortgage Securities.....George R. Hemingway, Oak Park, Ill.	84
	Appraisals	
17.	Appraisals for Loans.....Paul C. Loeber, Chicago	92
18.	Rental Values.....Mark Levy, Chicago	108
	Land Contracts	
19.	Land Contracts as a Financial Asset.....L. C. Van Hecke, Pontiac	114
	Coöperation and Organization	
20.	Coöperating with Realtors.....Frank Lincoln Johnson, Chicago	119
21.	Building a Mortgage Business.....Byron V. Kanaley, Chicago	128
22.	Real Estate Dept. for Trust Companies.....E. J. Schall, Cleveland	130
	Legislation	
23.	Mortgage Laws.....C. A. Nickerson, Knoxville	133
24.	Priority of Mechanics Liens Over Mortgages.....Vernon H. Day, Tulsa	134
	Subdivision Finance	
25.	Subdivision Finance.....M. C. Teasdale, Cleveland	138
26.	How to Finance Subdivisions.....S. S. Thorpe, Minneapolis	140
	Farm Loans	
27.	Farm Loans.....Hugh H. Shepard, Mason City, Iowa	144
28.	Appraisals—Farm Loans.....E. C. Kuehl, Eau Claire, Wis.	146
29.	Agricultural Land Values and Income.....C. R. Chambers, Washington	147
	Collateral Trusts	
30.	Land Contracts as Collateral for Bond Issues.....John Stalker, Detroit	152
31.	Collateral Trusts.....A. F. Street, Warren, Ohio	156
32.	Participating Certificates	161
	Office Procedure	
33.	Office Procedure and Forms.....Gerald G. E. Street, Boston	163
34.	Advertising.....C. S. Lebey, Savannah	166
35.	Construction Loans and Disbursements.....Emil H. Seeman, Chicago	167

ORGANIZATION OF THE DIVISION

IN 1922 the Directors of the National Association decided to divide the work of the organization into the following divisions:

1. Brokers Division.
2. Home Builders and Subdividers Division.
3. Farm Lands Division.
4. Property Management Division.
5. Industrial Division.
6. Realtor Secretaries Division.
7. Mortgage and Finance Division.

The organization meeting of the Mortgage and Finance Division was held at the midwinter Executive Committee "Convention" of the National Association at Jacksonville, Florida, January 18th and 19th, 1923. The standard by-laws, furnished by the Secretary of the National Association, were adopted, and the following Committee elected:

Executive Committee

For Three-Year Term

Hiram S. Cody, Chicago, Chairman.
Townley Culbertson, Kansas City.
Samuel N. Reep, Minneapolis.

For Two-Year Term

James C. Simpson, Norristown, Pa.
George H. Taylor, Chicago.
Robert Jemison, Jr., Birmingham.

For One-Year Term

R. M. Bradley, Boston.
J. A. Robbins, Knoxville, Vice Chairman.
Edward Porth, Milwaukee.

(Arthur E. Curtis, Chicago, was later appointed Secretary.)

The Division broke up its subject matter into separate units. This permits:

1. Definite assignment of work.
2. Practical results from work on each unit.
3. Concise and constructive reports at national conventions.
4. Large number of members of the Division at work on specific tasks.

Units of the field of the Division were designated as follows (each unit to be attacked by a committee of one to ten men appointed by the Executive Committee; each committee to make a concise annual report on the best current practices and newest developments in its particular subject):

Committees of the Division

1. New Methods in First Mortgages. (C. H. Corbett, Canton, Ohio, Chairman.)
2. Insurance Company Mortgages. (Sam Thorpe, Minneapolis, Chairman.)
3. Amortized Loans. (Stanley Trezevant, Memphis, Chairman.)
4. Housing Loans. (Frank Adair, Atlanta, Chairman.)
5. Construction Loans and Disbursements. (Emil H. Seeman, Chicago, Chairman.)
6. Business Property Loans. (New chairman to be appointed.)
7. Bond Issue Loans. (Townley Culbertson, Kansas City, Chairman.)
8. Long Term Loans. (Geo. H. Taylor, Chicago, Chairman.)
9. Mechanics Liens. (V. H. Day, Tulsa, Chairman.)
10. Second Mortgages. (Samuel N. Reep, Minneapolis, Chairman.)
11. Building and Loan Service. (Byron R. Hastings, Omaha, Chairman.)
12. Farm Loans. (Hugh Shepard, Mason City, Iowa, Chairman.)
13. Appraisals (City Loans). (A. C. Dannenbaum, Minneapolis, Chairman.)
14. Appraisals (Farm Loans). (E. G. Kuehl, Eau Claire, Chairman.)
15. Co-operation with Brokers (Frank L. Johnson, Chicago, Chairman.)
16. Mortgage Taxes. (New chairman to be appointed.)
17. Mortgage Laws. (C. A. Nickerson, Knoxville, Chairman.)
18. Office Procedure and Forms. (Gerald G. E. Street, Boston, Chairman.)
19. Safety of Mortgage Securities. (George Hemingway, Oak Park, Chairman.)
20. Ethics. (Ed. Porth, Milwaukee, Chairman.)

21. Participating Certificates. (New chairman to be appointed.)
22. Collateral Trusts. (New chairman to be appointed.)
23. Sales Contracts. (L. C. vanHecke, Pontiac, Chairman.)
24. Subdivision Finance. (M. C. Teasdale, Cleveland, Chairman.)
25. Advertising. (C. S. Lebey, Savannah, Chairman.)
26. Commission Rates. (W. W. Hazzard, Birmingham, Chairman.)
27. Licensing Mortgage Bond Houses. (Earle G. Krumrine, Chicago, Chairman.)
28. The Multiple Listing Principle as Applied to Placing Loans. (Chairman to be appointed.)
29. Co-operation with American Bankers Association. (Chairman to be appointed.)
30. Committee on Information and Publication. (Chairman to be appointed.)
31. Program Committee for Annual Convention. (Executive Committee acts.)

In order to correlate the work of the various Divisions, this Division recommended the organization of an Inter-Divisional Committee, composed of the Chairmen of all Divisions. This Committee has been organized.

An assessment of five dollars was fixed at Jacksonville to meet the expenses of the Division during the first year.

First Reports Printed Herewith

The first reports of the Committees were made at the 16th Annual Convention of the National Association at Cleveland, June 27th to 30th, 1923. These reports are printed herewith, those followed by discussion having been delivered as addresses at the Divisional meetings. The others were presented in written form. Included in this collection are special addresses made at the Convention, and articles reprinted by courtesy of other organizations.

It is the aim of the Division to make this loose-leaf volume the first of a series which will be a complete and constantly renewed collection of information concerning all phases of real estate finance.

A survey made by the office of the National Association in May, 1923 showed 1,276 Realtors interested in this Division. The average daily attendance at the first meetings of the Division—at the 1923 Convention—was approximately 700.

The co-operation of the Officers and Directors of the National Association—and particularly that of the Executive Secretary, Mr. Herbert Nelson, and his staff—is hereby acknowledged by this Division with sincere appreciation.

Hiram S. Cody, Chairman.

Chicago, October 1, 1923.

MEMBERS OF

MORTGAGE AND FINANCE DIVISION

AS OF OCTOBER 1, 1923.

ALABAMA

Anniston	E. W. Ledbetter	
Mobile	Geo. Fearn, Jr.	P. O. Box 481
	Realty Investment Company	
Birmingham	Jemison & Co.	221 21st Street
	Hazzard-Clark Mortgage Co.	406 Title Guarantee Bldg.

ARIZONA

Phoenix	Eben E. Lane	
Tucson	Murphy Realty Co.	
	Tucson Realty & Trust Company	

CALIFORNIA

Fresno	Consolidated Investment Corp.	239 Brix Bldg.
	Speed B. Leas	Griffith-McKenzie Bldg.
	W. A. Mosgrove	1033 J Street
	G. Mac Rae, California Bond & Mortgage Co.	
	Roy B. Snovely	384 E. Colorado St.
Santa Barbara	Norman E. McFadden	5 W. Victoria St.
Los Angeles	Union Mtge. Co.	740 S. Broadway
	Lloyd W. McAtee	740 S. Broadway
	Burton & Co.	Burton Bldg., Western Ave.
	A. L. Schoenborn	628 Story Bldg.
San Diego	Rogan & Company	Watts Bldg.
Pasadena	The Hogan Co.	366 E. Colorado St.

CANADA

Hamilton	W. W. Brown	21 Sun Life Bldg.
	M. H. Lounsbury	21 Sun Life Bldg.
Sarnia	Sarnia Finance Corporation	
Toronto	P. Cade Browne	46 King St.
	Provident Investment Co.	46 King St., W.
	Union Trust Co.	Richmond & Victoria Sts.

COLORADO

Denver	Bradley Realty Inv. Co.	1719 California St.
	L. F. Eppich	203 Ideal Bldg.
	Eben M. Hills	Inter State Trust Bldg.
	Rockwell Investment Co.	512 California Bldg.
	Burton A. Smead	717 Colorado Bldg.
	Title Guaranty Co.	1546 Glenarm St.
	M. Elliott Houston	1546 Glenarm St.
Pueblo	Thos. J. Downen	Thatcher Blk.

CONNECTICUT

Bridgeport	A. H. Hancock	875 Mail St.
	Schnee & Schnee, Inc.	509 Security Bldg.
New Haven	Thos. F. Clark	152 Temple St.
	Frederick M. Ward Co.	53 Church St. (C. B. Brown)

DISTRICT OF COLUMBIA

Washington	Glover & Flather	737 15th St., N. W.
	Thos. E. Jarrell	Woodward Bldg.
	McKeever & Goss	1405 Eye St., N. W.
	H. L. Rust	912 15th St.
	B. F. Saul Co.	1412 Eye St., N. W.
	Shannon & Luchs	713 14th St., N. W.
	Harry B. Pitts	713 14th St., N. W.

FLORIDA

Jacksonville	H. H. Simmons	25 Ocean St.
	Harry J. Wood	508-9 Graham Bldg.
Miami	L. W. Crow	Clayton Bldg. (Crow-Reeder Co.)
	Junkin & Erdmans Co.	Box 366
	Fred L. Terry	Box 891.
	Adrian McCune	First Natl. Bank Bldg.
Fort Myer	Carl C. McClure	

GEORGIA

Atlanta	Geo. M. Brown, Jr.	210 Georgia Savings Bank Bldg.
	Frank Adair	Adair Realty & Trust Co.
	R. R. Otis	Peachtree Arcade
Macon	Murphey, Taylor & Ellis	
Savannah	C. A. Mercer Co. (C. S. Lebey)	

ILLINOIS

Champaign	L. W. Bramblett	Gazette Bldg.
Chicago	Robt. E. L. Brooks	10103 Ewing St.
	W. W. Baird	29 S. La Salle St.
	H. S. Cody	79 W. Monroe St. (Chicago Trust Co.)
	Buckingham Chandler	56 W. Washington St. (Chandler, Hildreth & Co.)
	Cooper, Kanaley	133 W. Washington St.
	C. J. Driever	40 N. Dearborn St. (Cochran & McCluer)
	W. G. Dooley	3158 W. Roosevelt Rd. (Liberty Tr. & Sav. Bank.)
	D. I. Dunn (Peoples Trust & Savings Bank)	30 N. Michigan Ave.
	T. R. Dunn (V. P. Albany Park Securities Co.	3324 Lawrence Ave.
	H. W. Eidman	6910 S. Halsted St. (Halsted St. State Bank)
	B. K. Goodman	111 W. Washington St. (B. K. Goodman & Co.)
	Edgar N. Greenebaum	11 S. La Salle St. (Greenebaum Sons Investment Co.)

Fred W. George	Ashland & Milwaukee Aves. (Home Bk. & Trust Co.)	
H. N. Gottlieb	6 N. Clark St.(Secretary S. W. Straus & Co.)	
Herman Hachmeister	105 W. Monroe St. (Geo. M. Forman & Co.)	
C. W. Hoff	1352 E. 55th St. (University State Bank)	
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Frank H. June	5 N. La Salle St.	
E. S. Judd	40 N. Dearborn St. (Goss, Judd & Sherman)	
Frank L. Johnson	39 S. La Salle St. (Powell, Garard & Co.)	
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Francis A. Lackner	111 W. Washington St. (Lackner, Butz & Co.)	
Albert E. Leight	111 W. Washington St. (Leight, Holzer & Co.)	
S. Loewenstein	140 N. Dearborn St. (E. & S. Lowenstein)	
Arthur C. Lueder	40 N. Dearborn St.	
Wm. J. Moore	127 N. Dearborn St. (Amer. Bond & Mtge. Co.)	
Ross H. McMillan	111 W. Washington St.	
W. R. Prince	4738 Broadway (Sheridan Tr. & Sav. Bank)	
W. L. Peck	39 S. La Salle St.	
E. E. Rose (V. P. & Cashier Hill State Bank	3324 Lawrence Ave.	
Emil H. Seeman (E. G. Pauling & Co.)	5 N. La Salle St.	
Nicholas J. Schmitz	514 W. North Ave.	
Edgar M. Snow & Co.	69 W. Washington St.	
Albert W. Swayne	1011 Wrigley Bldg.	
Emil F. Smrz	1900 Blue Island Ave. (Kasper State Bank)	
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Geo. H. Taylor	312 S. Clark St.	
I. Whiteson	5000 Sheridan Rd.	
Milton S. Yondorf	56 W. Randolph St. (Yondorf & Co.)	
Cochran & McCluer Co.	40 N. Dearborn St.	
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Mead & Co.	69 W. Washington St.	
Union Bank of Chicago	25 N. Dearborn St.	
H. H. Brettman, Asst. Cashier, Mercantile Tr. & Sav. Bk.	Jackson & Clinton.	
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	J. C. Marshall	S. W. Straus & Co. 565 Fifth Ave.
	Wm. H. Mills	7 E. 42nd St.
	Walter Stabler Comptroller Metropolitan Life Ins. Co.	1 Madison Ave.
Rochester	Wm. H. Gorsline	Granite Bldg.
	Ralph Klonick Corpn.	109 E. Main St.
Schenectady	H. Chadwick	238 State St.
Utica	E. V. Donohue (E. I. & J. S. Kerman)	
NORTH CAROLINA		
Winston-Salem	Home Real Estate Loan & Ins. Co.	Liberty St.
	Banner Inv. Co.	Wachovia Bk. Bldg.
NORTH DAKOTA		
Fargo	W. J. Lane	609 N. P. Ave.
OHIO		
Akron	Bankers Guarantee Title & Tr. Co.	1130 Second Nat'l Bank Bldg.
	A. A. Moore Co.	Peoples Bank Bldg. Barberton, Ohio.
	Payne Realty Co.	293 Ohio Bldg.
	Carl N. Stover	713 Second Nat'l Bldg.
Alliance	Consolidated Realty Co.	341 E. Main St. (L. D. Scranton)
Canton	C. H. Corbett	1006 Renkert Bldg.
	R. D. J. Quinn	Leonard Agency Co.
	C. A. Seran	322 Tuscarawas St.
	Wm. S. Kinney	1006 Renkert Bldg.
Cleveland	W. L. Mould	Union Mortgage Co.
	D. H. Pond	7 Blackstone Bldg.
	M. C. Teasdale	704 Guardian Bldg.
	Ohio State Mtge. Co.	536 Engineers Bldg.
	M. N. Fowler	Bangor Bldg.
	V. C. Taylor & Son	607 Williamson Bldg.
	Wm. L. Ulmer	Ulmer Bldg.
	Dickman-DeGroot Co.	962 Hanna Bldg.
	H. L. Goodbread (The Wallace Realty Co.)	441 Engineers Bldg.
	Elworthy-Helwick Co.	737 Prospect Ave.
	L. H. Wain & Cook Co.	Williamson Bldg.
	J. M. Anthony	507 Williamson Bldg.
	E. B. Woodruff	Cleveland Discount Co.
Columbus	Carl H. Baldwin	No. 1 W. Gay St.
	Guarantee Title & Trust Co	15 E. Broadway St.
Cuyahoga Falls	Home Realty Co.	(L. M. Greene)
Dayton	Bocher, Pieper Co.	1104 American Bldg.
	James K. Davis	S. Main St.
	Hullman Realy Co.	305 Callahan Bank Bldg
	McCann Realty Co.	432 Ludlow Arcade
	Geo. E. Anderson	
Lima	J. F. Cover	129½ W. High St.
Massillon	C. W. Stuart	c/o First Sav. & Loan Co.
	Chas. Hostetter	105 Ricks St.
Springfield	Home City R. E. Co.	410 M & M.S & L. Bldg. (Paul E. Nollen)
Toledo	C. A. Campbell	c/o Ohio Trust & Sav. Bank.
	Irving B. Hiett	612 Madison Ave.
	John E. Parsons	307 Superior St. (Maumee Valley Mortgage Co.)
	S. W. Stansel	Ohio Sav. & Trust Co.
Warren	The Warren Guaranteed Mortgage Co.	

Cincinnati	Anne H. MacNeil	
	Johnson	Mercantile Library Bldg.
	Morris Strauss	Wash. Mortgage Co.
OKLAHOMA		
Lawton	F. S. Sneed	
Oklahoma City	Bradburn, Butler & Brewer	204 Fidelity National Bldg.
Tulsa	Title Guarantee & Trust Co	Box 910
OREGON		
Portland	MacMaster Ireland & Co.	U. S. Nat'l Bank Bldg.
	McClure & Schmauch	Railroad Exchange Bldg.
	Coe A. McKenna & Co.	208 Artisans Bldg.
	Portland Trust Co.	165 Sixth St., (Dean Vincent)
	Salomon & Co.	307 Railway Exchange Bldg.
	Title & Trust Co.	Title & Trust Bldg.
PENNSYLVANIA		
Allentown	Earl S. Kester (Kaeppel & Kester)	
	M. A. Reinsmith	
Altoona	F. Woods Beckman	P. O. Box 36
Erie	R. B. Way	(Feed-Way Co.)
Johnstown	M. R. Hornick	540 Main Street
Lancaster	Brown & Snyder	Woolworth Bldg.
Philadelphia	W. H. Hall	438 Land Title Bldg.
	C. W. Cabel, Jr.	130 S. Twelfth St.
	Theo. E. Nickles	2513 Germantown Ave.
	Alfred Rosenstein	802 Commonwealth Bldg.
	Jas. C. Simpson	1420 Chestnut St.
	Berman Bros.	6019 Market St.
	Edgar G. Cross	1411 Walnut St.
	Walter C. Redding	39 S. 17th St.
	Samuel Stern	253 South 15th St.
Pittsburgh	Henry W. Armstrong	16 N. Diamond West
	W. H. Heselbarth	506 S. Wash. St.
	R. L. McKallip	336 Fourth Ave.
	Jacob Gold (Gold Realty Co.)	534 4th Ave.
Landsdowne	W. Raymond Evans	
RHODE ISLAND		
Providence	M. Hellis Arnold	635 Grosvenor Bldg.
	Wm. H. Draper	170 Westminster St.
	Thos. J. Freeman	502 Grosvenor Bldg.
	R. A. Hurley	226 Grosvenor Bldg.
TENNESSEE		
Chattanooga	J. H. Etter	1012 Georgia Ave.
	Herman Ferger	Ferger Bldg. (Ferger Bros.)
Knoxville	F. W. Henck	302 W. Clinch Ave.
	Alex McMillan Co.	
	C. Albert Nickerson	
	J. A. Robbins	Robbins Bldg.
Memphis	Percy Galbreath	109 S. Court Ave.
TEXAS		
Amarillo	T. M. Bruner, Pres. T. M. Bruner & Co.	502 Taylor St.
Dallas	Porter Lindsley	1309 Main St.
UTAH		
Ogden	Kelly & Herrick	2500 Washington Ave.
	Froerer & Fowles	2409 Hudson Ave.
Salt Lake City	Ashton Jenkins Co.	32 S. Main St.
	Kimball & Richards	54 S. Main St.
VIRGINIA		
Norfolk	(Princess Anne & Norfolk Land. Co. (Allen M. Cook)	335 Arcade Bldg.
Richmond	Guaranty Trust Company	
WASHINGTON		
Bellingham	Percy Livesey	1328 Doch St.
Seattle	Calvin Philips & Co.	800 Leary Bldg.
	Seattle Title Trust Co.	114 Columbia St.
	John Davis & Co.	807 Second Ave.
Tacoma	A. E. Grafton & Co.	612 Rust Bldg.
Yakima	Yakima Mortgage Co.	
WEST VIRGINIA		
Charleston	Security Bank & Trust Co.	
	C. J. Pearson & Co.	
Huntington	The Mutual Co.	(A. H. Moore) Box 1086
WISCONSIN		
Beloit	Day & O'Neal	
Green Bay	Cady Land Co.	
Madison	C. B. Chapman	Gay Bldg.
	L. L. Oeland	401 Gay Bldg.
Milwaukee	Stuart F. Auer	157 W. Water St.
	J. B. Gottschalk	310 Caswell Blk.
	Hackett, Hoff & Thiermann, Inc.	77 Michigan St.
	O. N. Ludwig	317 Caswell Blk.
	Mikkelson, Martin	367 Grove St. (Mikkelson & Bohn)
	Edw. Porth	314 North Ave.
	A. C. Reichard	448 E. Water St.
	Aug. C. Sehrt	488 11th Ave.
	Scranton Stockdale	1210 Majestic Bldg.
Racine	F. H. Schultz Co.	
Superior	Geo. C. Newton Co.	1111 Tower Ave.
WYOMING		
Casper	Cecil Bon	202 Midwest Bldg.

Total members, as of
October 1, 1923, ... **360**

FIRST SESSIONS OF THE MORTGAGE AND FINANCE DIVISION

Sixteenth Annual Convention of the National Association of Real Estate Boards, Cleveland, Ohio, June 27-30, 1923.

THE first meeting of the Division was called to order at 1:30 P. M., June 27, 1923, by Hiram S. Cody, Chairman, presiding.

Chairman Cody: Ladies and gentlemen: Mr. Arthur E. Curtis, our executive secretary, who has worked faithfully and efficiently in organizing the division, will make the opening statement of our aims and of what has been accomplished to date.

Aims and Results

Secretary Curtis: Our conception of the mortgage and finance division, is to make it of service, not only to our own members, but to the entire National Association, so that any real estate salesman on the firing line, in actual real estate practice, can come to this division and get the information and help he needs.

In order to handle the broad range of mortgage and finance, it was necessary to break it up into a large number of definite units, covering the various phases of this business. Therefore, we have thirty different committees, each committee with a different subject to handle. Most of these committees have been doing good work, and we appreciate the co-operation and assistance every one has given us.

We are building a permanent organization through which its members may obtain complete information on the latest practices in any branch of the mortgage and finance business.

Most of the committees will remain standing this year, to go on with the work they have so well begun.

Gather Facts and Get Them to Members

Our job has been not only to gather information and facts, but to get them to our members. We therefore have a committee on information and publication, whose duties are not to create anything, but simply to correlate the facts, condense them, and get them to you in the form that will be of the greatest service.

After this convention, everything that is presented here, whether verbal or written, and all the reports of committees, will be printed and sent to our members in loose-leaf form. That will enable them to add the new information which will be sent out from time to time.

As each of our committees will continue to function, you will have in your libraries a continually renewed source of information on each subject pertaining to real estate finance.

We have been congratulated by the Board of Directors of the Association on the work done by our committees, and on the fact that we are financially in very good shape. (Applause.)

INSURANCE COMPANY MORTGAGES

WALTER STABLER, New York
Comptroller, Metropolitan Life Insurance Company

CHAIRMAN CODY: Some people feel it is of consequence to be Comptroller of the greatest Insurance Company, with assets of $1,300,000,000; others deem it of some importance to head the largest mortgage banking organization ever brought together, and to personally supervise the investment of over one hundred million dollars a year in city mortgages. But the thing that hits home with the Realtors is the fact that this gentleman's determined policy since June, 1920, has been to reserve the funds under his control for loans on **new homes**, and not until every application for which there was sufficient security had been granted, did the Metropolitan lend its funds on other types of loans.

We are very glad indeed to have with us this afternoon one of the best friends the Realtors of America have ever had, Mr. Walter Stabler, Comptroller of the Metropolitan Life Insurance Company. (Long applause).

Mr. Walter Stabler (New York): Mr. Chairman and Brother Realtors:

I have been at the game for thirty-five years. I think it is the greatest business in the world. I think the realtors are the best lot of fellows in the world. One of the most pleasant things I have to do is to meet such bodies as this, and to meet realtors who come into my office. They are always welcome, and I want to tell you that every one of you will be welcome whenever you want to come. (Applause).

Great Work of Building and Loan Associations

You have heard a good deal this afternoon from the building and loan interests, and you will hear more. Those associations have done more good in the procuring of homes for the men, women and children of this country than any other body or organization. (Applause).

They get right into the family; they know the man's needs, and his ability to pay. It isn't possible for any other class of lending institutions to get quite as close to the home owner as the building and loan association.

Before I left home I obtained some figures from the last published report, and their assets, nearly all of which are invested in mortgages, were $2,800,000,000.

Then I find the total mortgages of the life insurance companies in this country at the end of 1921 amounted to $2,500,000,000, or $300,000,000 less than the associations, and I am sorry to say that a very small proportion of that life insurance money is invested in mortgages on homes. But that will not long be the case. The life insurance companies—at least many of them—have wakened up to the importance of the mortgage loans on small homes.

Serving the Industrial Classes

I have told several times, and I hope you will not tire if I repeat again, the story of what put me into this business. Our company insures in this country and Canada the lives of over twenty millions of people, with twenty-eight millions of policies. Those people are the owners of our company, because we are mutual. We are their servants. They look to us to do the best we can with the investments, for which we are trustees. That is the legal status of the situation.

But our great President, Mr. Haley Fiske, over three years ago, realized that we had a further responsibility than simply investing this money. He feels that the man of the industrial classes, the man with the small income, needs all the help, in every way, that we can give him.

It had been our practice, ever since the company was started, to make our loans on large units, office buildings, large apartment houses, retail store buildings, hotels, and so on, but a little loan we would not listen to. It was a great deal more trouble, a great deal more expense. We had accomplished very little when we made a small loan and it really seemed that it was not the best class of investment we could make.

"Relieve the Housing Shortage"

One morning at a meeting of the real estate committee, at which the President, the Vice-President, and I were present, our President said. "I want our company to make loans on dwellings and low-priced apartment houses; we must help in the situation to the limit of our ability, and I want you to get at it."

The vice-president and I are pretty close and we talk very plainly to each other, and I said. "Mr. Ecker, Mr. Fiske has given us a tremendous job and it seems almost insurmountable. Can't you persuade him to forget it?"

Mr. Ecker's reply I will never forget. He said, "Stabler, he is the President of the company, don't you think maybe you had better do what he says?"

Stabler got busy. But, gentlemen, it was a big undertaking, because you know that these loans can only be made by close personal contact with the borrowers. We had purchased such loans in one or two cases from banking institutions, more to help them out of a tight money market, and from that was evolved the plan which we now have in operation.

Launching the Enterprise

Some of you were probably at Kansas City in June, 1920. I went there to talk on another subject which didn't interest anybody very much, but I was asked the question, "what are you going to do about housing loans?" and I said we expected to appoint lending agents in the different cities of the country, wherever we could do so, and have them make the loans and turn them over to us. I was asked how much money we expected to lend. It rather stumped me for the moment, because I had not thought of the amount. I said, "Fifty million, I guess, in the next two years." That created some excitement, because fifty million was a lot of money, in 1920, to lend on dwellings.

But, gentlemen, I am glad to say to you that since June, 1920, the Metropolitan has made over 16,000 loans, almost entirely on new dwellings and new apartment houses, to accommodate 36,900 families, or 184,500 individuals, for an amount of $129,634,000. (Long applause).

So we kept that rash promise.

The Metropolitan Plan

Now, most of you probably know what our plan is, but I will take the liberty of repeating it for those who do not know about it.

We thought it necessary to appoint banks, trust companies, or mortgage guarantee companies as lending representatives. They obtain the application at a figure that is satisfactory to the correspondent. It is sent to us, and authorized by our real estate committee, as required by law, and when the loans are completed and the papers reach us, they are immediately paid for, but later on, if anything is found wrong with them, they must be corrected.

That enables the banking correspondent to have as little money invested in these loans as it is possible for us to arrange.

Must Net 6 Per Cent

The loans are made at the interest rate current in the section, wherever it may be, provided the net rate to us is not less than 6%. The lending institution can charge a commission, which is entirely proper, and I am sure you will agree with me on that. Where the interest rate permits it, we allow the correspondent one-half of one per cent per annum for the collection of installments on the principal and the interest, and in general looking after the loans, the same as if they owned them themselves.

Fifteen-Year Term — Easy Payments

They are invariably made for fifteen years, semi-annual payment of interest, with three per cent of the principal paid every interest date, beginning on the second. Option is given to the borrower to repay the loan on any interest date after three years.

Protecting the Borrower

The borrower has a fifteen-year contract. We have only a three-year contract. But, I have seen so much of the exactions of some mortgage companies and other lenders, making three-year loans and requiring one-half of one per cent, to one per cent per annum, for simply making the extensions, that we determined some plan was going to be made by which the borrower would not be subjected to this charge.

I may be treading on some of your toes, but I can't help it. That is the reason we make this loan as it is. At the end of three years, if a man thinks he wants to re-finance, he can do it. If, before the expiration of the three years, he comes into some money, or dies and leaves some life insurance to his family, and they think they want to pay a further sum, we take the money without any surrender charge for doing so.

Plain Duty of Insurance Companies

The life insurance companies, particularly the large ones, insure the lives of the industrial classes. I will venture to say that the three large companies, the Prudential, the John Hancock, and the Metropolitan together insure forty, and possibly fifty millions of lives of the inhabitants of this country and Canada.

Can't you see that these companies have a responsibility to those people? Can't you see that these companies should do anything they can to help those people for whose funds the companies are trustees, and that it is their duty to do it? That is our view of it, and I hope and believe that it will become the attitude of all insurance companies in this country.

Savings Banks Have Equal Responsibility

Savings banks are in the same situation. Savings banks receive the savings and deposits of the working men and working women but they have not seen the situation, gentlemen, as we see it. Savings banks have trustees—I am talking about the mutual savings banks. No remuneration is paid to the trustees (only the officers of the bank receive salaries) and they want to do business in the easiest way and in the way business has always been done, and done with very great success, but I have felt for some years that the savings banks of the country, particularly the mutual savings banks, owe the same duty to their depositors, to the working people, that the life insurance companies do.

I hope you will try to instill in the minds of the savings bank trustees and officials whom you know that this is one of their duties and one of their responsibilities.

Home Owners Eye Public Officials

Every man ought to want to own a home, to provide a home for his wife and children; he then becomes one of the tax payers of his community and of the nation. He feels a more direct responsibility for what he does. He feels that he can hold others, public officials and others, to a strict accountability for what they do, because he helps pay them for what they receive for their services.

—And Laugh at Landlords

Then, in late years, the man who has been renting—and God help many of them—is absolutely at the mercy of the profiteering landlords—and I am sorry to say in New York we have thousands of such men, and such women, too. So that, the poor devil who is a renter, never knows where he is going to get off in paying his rent. His rent has been doubled, trebled, quadrupled, and in most cases, I think, he has not had a proportionate increase in salary.

A great many who have saved a little money, therefore, feel they want to get away from this, that they want to be their own landlord, so that nobody can say to them, "Your rent will be so much higher next month." It will bring peace and contentment to every man who buys a home and who buys it at such a price and on such terms as he knows he can get through with, so long as his health and life continue.

Broaden the Lending Field

Therefore, it is, in my opinion, of first importance that home owning should be encouraged. I don't need to tell you this, probably, because I know you realize it, but I want you to know what is in the back of our minds, and to get into your minds quite definitely that you can help the people in this situation by broadening the field of lending; broadening it with the insurance companies; broadening it with the savings banks; broadening it with every institution or individual who has money to lend.

Mortgage Investments vs. Other Types

The experience of life insurance companies in mortgage loans has been so satisfactory that they are gradually beginning to see that the very best form of investment is in mortgages on improved city properties, and on farms.

I would not like to tell you—in fact I have not exact knowledge but I have a faint idea—of the losses that have been incurred by life insurance companies, by savings banks, and by large investors, in other forms of securities. You know that. Every one of you knows of the heavy losses that have been made in forms of securities other than mortgage loans.

Both Greatest Safety and Highest Yield

The record of our company—and I must refer to our company because that is the only one I know anything about—the record of our company for the last forty years has been that we have loaned on mortgages between seven and eight hundred millions of dollars; that the losses have been absolutely nothing; that the profit on foreclosed properties has been three-quarters of a million dollars. In addition to that, a better interest rate is obtained than is possible from any other form of investment. (Applause.)

For that reason, the life insurance companies, I believe, with very few exceptions, are placing a larger proportion of their funds in mortgage loans than has been the case, certainly in the last fifteen or twenty years.

Metropolitan Percentage Increasing

I made up some statistics the early part of this year on the subject of total investments of life insurance companies, representing 93.84% of the total investments of all life insurance companies in the country. At the end of December, 1921, those investments amounted to seven billion, four hundred forty-seven million dollars. Of that amount, on December 31, 1921, two billion, five hundred fifty-six million dollars were invested in mortgages.

That was 34 1-3% of the total investments. Of that amount, our company held 17¾% of

the total mortgage investments of these companies. The percentage of the investments in mortgages in the Metropolitan Life, at the end of 1921, was 42¾% of their total investments. And I can say to you that that proportion is steadily increasing. (Applause).

Interest Rate Better Than Average

Something has been said about interest rates. I am bound to refer to that, because that is something that some of my friends down here, who are my dear friends and correspondents for our business, are putting up to me all the time.

I have told you that our minimum net rate on these housing loans is 6%. The average rate on our total city mortgage investments at the end of last year was 5.76%, or 5¾%, and that is a pretty good rate for any life insurance company.

That One-Half Per Cent Equals $2,250,000

Our average rate, so far as I can obtain the information, at the end of last year, was about one-half of one per cent higher than many other life insurance companies. I think there is more difference than that with some of them. When you realize that the difference in rate on our investment at this time means two and one-quarter millions of dollars, between the rate that we get on our investments and the rate some of our competitors get, I think you will agree with me, that it is our duty to stand up as close as we can to this figure.

Duty of Trustees

I know all of you men are believers in low interest rates. I don't blame you at all. You are on the other side of the fence from me. We want to serve these borrowers, but our first duty is to the policy-holders for whom we are trustees. If we do not do the best we can with the funds intrusted to us, I feel we are not doing our full duty by them, because this additional profit means additional dividends on their policies. That is so much money we have earned for them over and above what somebody else elects to do.

We mean to continue without regard to what our competitors say and do. I know they are often cutting the rate one-half of one per cent. They are perfectly welcome to it. We are lending this year over one hundred million dollars in city loans, a large part of it on city dwellings and apartment houses. Others can do just the same, and I think to a greater extent serve their policy-holders, whose servants they are.

Security, Not Volume

We are not lending money to make loans in bulk; we are lending money for the best possible investment we can get, with the best possible class of security and the best interest rate obtainable, and if you were in my position, I feel very certain you would feel as I do about it.

Cooperation With B. & L. Associations

About two years ago, it occurred to me, from information that I had received, that the building and loan associations needed a great deal of help. They had a demand for money for homes four times as great as they could possibly fill. I knew that in the city of Philadelphia and in the city of Baltimore it was a common thing, almost the universal thing, for first mortgages to be obtained from regular investors, and the second mortgages to be taken back by the building and loan associations. So that the fifty per cent of the first mortgage, and the twenty to twenty-five per cent of the building and loan association, gave the man of small means the opportunity to own his home under the most favorable conditions.

It is done in Philadelphia almost exclusively in that way, and I wanted to see if it could not be done more widely, and I made this suggestion and it was approved by my superiors; that we arrange with strong and well-managed building and loan associations to make first mortgage loans for us, and for them to make the second mortgage loans if the law would permit it. They would collect the interest and the installments on both mortgages and remit to us what was due us at the time specified.

Trebling Their Funds

If that could be done, it would widen the scope of the building and loan associations to just three times what they can now do. Instead of lending five hundred million dollars a year, as I think they did three years ago, with this help, if they would all use it and could use it, it would mean they could lend a billion and a half dollars a year to their members. I think that is worth thinking about.

I tried hard to put it over. There are only two states in the Union I know of where this is permitted. It cannot be done unless amendments are made to the building and loan laws

that will permit them to make second mortgage loans. It must be tied up by very stringent laws, but if those laws are enacted there is no reason I can see why building and loan associations and insurance companies cannot work together with mutual advantage to both and to great advantage to the people who want to borrow from such associations.

Loan Agents in 300 Cities

Now, gentlemen, in all this I have said there is a certain amount of responsibility up to you men. We have representatives in over 300 cities of this country who will be glad to negotiate with you, I am sure, if you will bring them what they want, because they stand behind these loans. They either guarantee them, if the law permits them to do so, or they make a verbal agreement with us, and promise, in good faith, that, if any trouble comes from any of these loans, they will take them back from us, and nurse the borrower along, if he is entitled to being nursed, or foreclose the mortgage if he is not entitled to consideration.

Therefore, while it is not a legal guarantee, it amounts to that so far as we are concerned.

Will Continue Housing Loans

My mind is entirely at ease, with the many, many millions of dollars we have placed through these correspondents, as to the security of our investment. They are ready to take more loans. We shut down on other kinds of loans lately, because we had so much pledged, but we will not shut down on housing loans, and we do not intend to shut down on them. It may be necessary to sell other securities to provide the money. (Applause).

Service as Affecting Interest

There is another thing in connection with interest rates that I think you will undoubtedly realize and agree with me on. Generally, to the man who wants to buy his home or build his home, service means a good deal more than interest rate. If a man can have the money offered him at five and one-half per cent, without service, he would rather go where he would have to pay six per cent and have the service he must have and which he needs. Keep that in your minds, when you talk interest rates, you gentlemen; keep that in your mind when you talk about the five and one-half per cent rate.

Title Guaranty Policies

One question was raised as to the cost and expense of title abstract examination. We prefer a policy of title insurance wherever it can be obtained from a company which we know to be solvent and strong enough, and whose policies are accepted by the State of New York, to whose commissioner we must report, and who examines our assets every three years.

If we can not get a title policy, we must have an abstract. There is no option on our part. The law of the State of New York provides that the lender must have either an abstract of title and a certificate of counsel, or it must have a policy of title insurance. The title policy is cheaper than the other form. We are always willing to take it and glad to get it, because it simplifies things for us when the insurance department examines our records.

Simplify at Every Turn

I believe that would be the attitude of all insurance companies. Don't think, gentlemen, we are trying to raise any barriers in the business we do with you. We want to lift the barriers if possible. We want to make it as easy to borrow money on real estate as it is for a business man to go to his bank and borrow money. But, the two classes of business are different. You must be more technical in lending money on real estate, you know that. But we want to reduce that technicality to the lowest possible point, in order that the buyer may obtain his money more quickly, and at the least possible expense.

I believe that is all I have to say to you, but if you want to ask me any questions, I will be glad to hear from you. I thank you. (Long Applause).

Discussion:

Mr. W. H. Bosley (Toronto, Canada): I would like to ask Mr. Stabler just what proportion of that one hundred twenty-four million dollars which he loaned to small householders, was loaned in Canada.

Mr. Stabler: None, for this reason—and I am glad you asked that question. Let me say that the Canadian government required the deposit with it, or with trustees, of one hundred ten per cent of the amount of our reserve.

In other words, the Canadian government's own obligations are only accepted as security at 95, and mortgages at 90. We bought your bonds, we bought twenty-five million dollars worth of them during the time you needed the cash. We can deposit those bonds with the insurance department of Canada. If we make mortgage loans they must be assigned to a trust company,

which collects the interest and the installments and sends the money to us. There is a great deal of difficulty in that and some expense, and it is very slow.

In addition to that, let me say further that the investments the company has in Canada are mostly in Canadian securities, government, provincial and municipal. We have sixty per cent more money invested in Canada than we have taken out.

I want to make the loans you talk about, and I hope the time will come when we can do it, but these facts are staring us in the face all the time.

Stabilization of Values

Mr. W. S. Kinney (Canton, Ohio): Mr. Stabler, two years ago I believe you made the statement in regard to property values that you expected, or that it was your opinion, that the value of property and buildings would undoubtedly settle to a point around seventy-five per cent above the pre-war price of the buildings?

Mr. Stabler: Yes.

Mr. Kinney: I would like to ask whether, in view of events of the last eighteen months, you will change your mind in regard to that.

Mr. Stabler: No, except possibly I was a little too low.

Mr. Kinney: I am glad to hear you say that.

Mr. Stabler: It is impossible for me to believe that values will ever settle back to the prices that existed before the war. (Applause).

The principal reason is that labor, from the forests, from the mines, from the clay banks, until it gets into the house, constitutes probably 95 per cent of the cost. Labor is on a basis so far above pre-war wages that I don't think it will ever get back, nor do I think it desirable that it should get back to anywhere near what it was before.

High Wages and Efficiency

Just now we are having very high wages and labor is limiting production. I am perfectly willing to have the labor unions hear what I say, when I state that if they would give the hard, honest day's work which they gave before the war, there would be much less criticism of the wages they are receiving. (Applause).

Must Recognize Higher Costs

Mr. Kinney: Then, in making valuations for mortgage loans you recognize the present high cost, or what we call the high cost of building?

Mr. Stabler: If we didn't we couldn't make loans. (Applause).

Why Six Per Cent?

Mr. Jacob Gold (Pittsburgh, Pa.): Speaking of Prudential charges—

Mr. Stabler: I am not speaking of Prudential charges.

Mr. Gold: Speaking of the interest rate of six per cent on houses, what is the highest interest on the best security you can get on the bond market today?

Mr. Stabler: I think about 4.6%.

Mr. Gold: Why should you charge six per cent?

Mr. Stabler: Because we can get it.- (Ap plause.)

I would like to ask the gentleman what is his business.

Mr. Gold: Real estate, selling houses. I have sold hundreds of houses to poor people.

Mr. Stabler: Do you maintain one price on your houses?

Mr. Gold: One price.

Mr. Stabler: One price only?

Mr. Gold: Yes.

Mr. Stabler: Is there a profit on that?

Mr. Gold: A profit? Yes.

Mr. Stabler: Do you make a profit on the cost, or are you a broker?

Mr. Gold: Broker and builder.

Mr. Stabler: If you have a house to sell, would you sell it a little bit less than the regular price because you think the man ought to have it cheaper?

Mr. Gold: Well, no. (Laughter).

Mr. Stabler: It would be better for me if I could buy this suit of clothes for $50 instead of $75. But I can't do it. Seventy-five dollars is the market price for it.

Interest Rates in Near Future

Mr. H. Robert Ennis (Kansas City, Mo.): I would like to ask you what, in your opinion, is going to be the trend of interest rates, say in the next year; also, what percentage of foreclosures have you had on your housing loans?

Mr. Stabler: Do you want me to talk about housing loans entirely?

Mr. Ennis: Yes.

Mr. Stabler: What is going to be the interest rate the next year?

Mr. Ennis: The general rate for loans.

Mr. Stabler: I see no reason why it should be cheaper than it is today. There is only so much money to be loaned on real estate, but there is an enormous demand for it. We have a demand every day for loans on all kinds of property, large and small, that we would like to meet, but we can't possibly do it, nor can any other lenders do it.

Never Mind Wall Street

Don't think for a minute that because some other things are slacking up; don't think that because there was a kind of smash in Wall Street last week, that real estate is going to suffer. I don't believe it will suffer one bit. (Applause).

On the contrary, I believe the more trouble you have with other things, the better it is for us, for the realtors. (Applause).

The country is not overbuilt, it is underbuilt. We want a lot more buildings, and as long as that situation lasts you are going to see money at a pretty stiff rate.

Record on Foreclosures

Now, as to foreclosures. I believe you asked about foreclosures?

Mr. Ennis: Yes.

Now, as to foreclosures: We have had some foreclosures lately on one group of houses where the backer, a large manufacturing concern, went to pieces even before the wheels turned in the factory, and we had to foreclose a number of loans.

The houses are rented and we expect to sell them without any loss whatever. Outside of those, and that is one single instance, we have not had one single foreclosure we know about. (Applause).

Rates in Florida

Mr. S. C. Hall (West Palm Beach, Florida): Our rate of interest down in Florida is 8%. What is your attitude toward places like that?

Mr. Stabler: We are lending in Palm Beach and West Palm Beach at 7%. We have loaned quite a little money there and in other Florida cities.

Commission Rates

Mr. August C. Sehrt (Milwaukee): Generally speaking, what is the rate of commission charged by your representatives on loans? For instance, in making a fifteen-year loan?

Mr. Stabler: I don't know what they charge. Commissions are not the same in every city. We do not encourage them to charge anything more than the most moderate commission. I don't believe they charge more than five per cent to cover the expense of the building loan. We realize that the construction loan is much more expensive and requires quite a little attention. The lending agent should have a better commission on the building loan than on completed buildings.

One Savings Bank's Record

Mr. Edward C. Meurer (Stapleton, N. Y.): I am president of a trust and savings bank in Staten Island and have been for twenty-two years.

I want to cover some of the remarks our speaker has made in regard to savings banks. Evidently he is not familiar with what some savings banks are doing. We charge no commission, making building loans and advancing the money on the house as it progresses, and when it is completed, you get a certificate that it has been erected in accordance with the laws.

I hope the other insurance companies are at last coming to the realization that they must be of help to the individual home owner and builder.

Mortgage Redemption Insurance

We are helping the insurance companies to this extent, that when we grant a loan we try to have the individual take out some life insurance to cover that mortgage so as to protect the home owner's wife and children in case of death. I think it is a wonderful thing. If we find he has life insurance, we say nothing more. If not, we ask him to take out a policy to cover our mortgage, and his family is protected. It has done a lot of good. I can cite one or two instances where they at first refused and thought it was a hardship, and before the end of six months the individual died and they came to me and thanked me for having them take out the policy.

Helpful Advice for Customers

The savings banks are helpful in every way. Some go so far as to open a department to advise householders, and advise housewives, and teach them how to save, and you realtors can help in the same way. We have worked it in New York savings banks with success.

Savings Departments of National Banks

There are certain sections of the country where national banks have savings accounts. I found that out in Chicago, at the last convention. In Chicago, the national banks have savings departments and I learned that they used that money for mortgages.

Some Savings Banks Need Legal Pressure

But, we have in New York, in the outlying districts, such as Staten Island and Long Island, savings banks that do not invest in mortgages.

You realtors should preach, in your sections where you have savings banks, "put your money in savings banks and thereby help yourselves." Where you have a savings bank, and a national bank that has also savings accounts, and do not use those funds for mortgages, they should be compelled by law, and that question has been brought up in convention, that money on deposit for savings in national banks should be loaned out in the same way a savings bank is compelled to lend its money.

Some Notable Exceptions

Mr. Stabler: I want to say to this assemblage that the bank with which the gentleman is connected in Staten Island, as well as other banks at Long Island City, and elsewhere, get no criticism whatever from me. They are doing just what the gentleman said. But, I am afraid such cases are the exceptions in the City of New York.

Please do not understand me as criticizing the savings banks that are doing what you are doing. But, savings banks in New York, as a rule, do not do what you are doing, and you know it.

Mr. Meurer: They are coming to it.

Mr. Stabler: Yes, and I am glad they are.

Chairman Cody: May I call your attention to two pamphlets directly in line with Mr. Stabler's talk, two pamphlets which will be mailed to the members of this division with the reports of these meetings. One is "Real Estate Mortgages as Investments of Insurance Companies," by Dr. Richard Ely, prepared under the direction of Secretary Nelson (printed on page 27); another "Insurance Company Mortgage Loans," by Mr. Sam Thorpe of Minneapolis, Chairman of our Committee on Insurance Company Loans (printed on page 43).

NEW METHODS IN MAKING FIRST MORTGAGES AND NEW SERVICES TO THE BORROWER

C. H. CORBETT, Canton, Ohio.
Chairman, Committee on New Mortgage Methods.

CHAIRMAN CODY: Mr. Corbett has had extensive experience in building. Since 1917 he has built over fifty houses, as well as other buildings. He is thoroughly familiar with the details of construction and of mortgage financing from the borrower's standpoint. I take pleasure in presenting to you Mr. C. H. Corbett of Canton, Ohio. (Applause.)

Mr. Corbett: I have a double-barrelled subject today.

My position is that of a borrower. I have an idea most of you are lenders, capitalists, financiers. I am on the other side. I am the man who wants to borrow money on real estate. I am going to tell you what I think about you fellows who want to lend, and your attitude in doing so.

Sources of Mortgage Money

There are eight chief sources of obtaining mortgage money: from insurance companies; from banks, both saving and commercial banks; building and loan associations; industrial concerns; mortgage brokers; bond issues through trust companies; from individuals; and from the federal farm loan association.

Insurance Company Loans

Taking those in order, I wish to tell about the new methods adopted by the insurance companies in their mortgage loans. About 1917, when building costs began to mount, most of the insurance companies had been making only straight mortgage loans, (not installment payment loans) for three or five years, with the entire principal due at the end of that period.

With the mounting cost of building, they feared for the security of their loans. They had to find some new method to meet the demands.

Amortization

To meet this condition they adopted the amortized loan, the loan by which they granted larger amounts, but demanded principal reductions either monthly, semi-annually, or annually.

This form of amortized loan has since been adopted by practically all the sources of mortgage funds. It is a very satisfactory loan, I believe, satisfactory both from the standpoint of the borrower and the lender.

It requires an enforced saving, enforced thrift on the part of the borrower, because he begins reducing at once, with the object of eventually paying the loan off entirely.

From the standpoint of the lender, he is getting his money back gradually and is thus enabled to make new loans. So that I think, as realtors, we should encourage and foster this form of loan. It is new, in that it has only been used a few years, and it is helping to meet the demand for mortgage money.

The Metropolitan Plan

The Metropolitan Life Insurance Company was the first of the insurance companies to make the amortized loan on dwelling houses. Only a few miles from here, at Akron, Ohio, this company made first mortgage loans on the Goodyear allotment in 1916 and 1917. That proved so successful, they liked the loans so well, that they began making dwelling house loans in various other cities throughout the country. They now have a large part of their assets invested in this form of mortgage security.

It has one form of loan which is very attractive—the 15-year mortgage, 50% of the value of the property, and requires semi-annual reductions, for, besides the interest, 3% of the principal must be paid semi-annually. At the end of the 15 years, the balance of 13% is paid in full.

That meets the competition of the building and loan associations which require monthly payments. It more than meets it. The man that makes this loan can put his money in the savings bank, draw interest on it until the end of the six months period, then pay the interest and principal and be ahead of the building association loan which requires him to pay every month, and not get a reduction of principal until the end of the six months period.

So you see this loan plan has been very successful, and the Metropolitan is putting out a large number of these loans.

The Equitable Plan

The Equitable Life Insurance Company is making what it calls a "Home Purchase Loan," which requires life insurance in amount equal to the loan, taken, in connection with it, from the Equitable. These loans pay out in 120 equal monthly payments, covering ten years.

It is making these in a great many cities. It is making 50% loans; six per cent interest, reducing the principal with each payment. The interest payments are reduced monthly under that plan, which is quite an advantage over the building and loan association loans.

This Equitable loan is a very good loan for the home purchaser. It is not so good for the builder, because it is not easily transferred. That is one of its handicaps. It can not be transferred for three years without the written consent of the Equitable, and it can not be paid off during the first three years without paying the insurance premium up to the end of the three years.

These loans by the Equitable are made by their life insurance agents, no commission being charged. I think the agents make their commissions from the life insurance which goes along with it.

Construction Loans

Now, the service which is being granted to borrowers: The Metropolitan Life Insurance Company again is the leader. Building and loan associations and banks are now doing the same thing. Builders who present their plans and specifications when they start the building, may get a commitment as to the amount of the loan which may be made as soon as the building is completed, or thereafter as soon as the lien period is ended, 60 or 90 days after the building is completed. This permits a person to know how much he can get when his building is done.

Therefore, he can take this commitment in writing to his local banker and borrow the money on short time notes to complete the building, and then get his permanent loan.

Mechanics' Liens

In this connection, loan agents are giving good service to builders, by furnishing them with blank waivers for the laborers, sub-contractors, and material men to sign up, showing that they have been paid. In that way the loan can be made as soon as the building is completed without waiting for the period for filing notice of lien.

You see insurance companies or loaning agents, can not make a construction loan until they are satisfied there will be no mechanics' liens. If you have waivers, stating that they have been paid in full, or that there is a specified amount still due them, then the loan can be made as soon as the building is done. If there is something still due to the material men, the loan agent can pay them that amount and deliver the balance to the builder.

Temporary Financing During Construction

By means of combining these **two services,** which I think are very important, **the commitment** and **getting the waivers,** the builder may finance a $50,000 construction upon a lot valued at $50,000, or any other loans in proportion, by borrowing some $20,000, on ninety day paper, and giving notes to his sub-contractors and material men for the balance, and as soon as his building is completed, he can get his permanent loan, paying off his loans at the commercial bank, paying his material men and sub-contractors, and holding his property clear, without having any of his money in the construction, except what he had in the site before he started. This is being done and can be done successfully.

Banks Adopt Amortization

The banks, commercial and savings, in this part of the United States, have recently changed practically all of their loans to the amortized loan. Where they previously made loans of one or three years, or five years, requiring only the interest to be paid, they are now making monthly payment loans requiring one dollar a month per hundred to be paid every month, the same as the old building and loan association plan.

They find this works better for them and for the borrower than the old straight loan. I was very much surprised upon inquiring at our local banks a few days ago, which until two years ago never made an amortized loan, to find that they have all their loans now converted, at Canton, to the amortized loan, paying $1.00 per hundred per month.

National Banks as Lenders

Regarding national banks, under the Federal Reserve rule, they may now make mortgage loans. They may lend one-third of their time deposits in the form of real estate mortgages. If they are farm mortgage loans they may run for five years; if on city property, for one year. However, the national banks are not making use of this, I am sorry to say. They are preferring to make the commercial loan, and do not give the realtor the advantage of investing that "one-third" in mortgage loans, as they might. And, right here is where, as realtors, we can be of service to the profession by persuading the national banks to make more mortgage loans, as they have a right to do.

Building and Loan Associations

Regarding building and loan associations: they have done a great work in home building. But, during the past six or seven years, their assets have been entirely inadequate to take care of the housing loans which have been asked of them. That is the reason insurance companies, and other loaning agents, have had to come into this field.

Co-operation with Manufacturers

However, certain building and loan associations in this part of the country are now entering a new field, which promises to be very valuable to builders. They are putting out literature and arguments to industrial concerns, manufacturers who find their labor turnover so great that the loss is a very important item to them. These manufacturers are being persuaded to build groups of homes and sell them to their employees, taking back a first mortgage for a large part of the value. Or, in other cases, they are lending the money to their employees to build their homes themselves, in very much the same way that building and loan associations have done, except they lend a larger amount.

They might lend a man $5,000 to build a $6,000 home, while the building and loan association would lend him only $3,000. In either case, they take back a first mortgage, we will say, for $5,000 on this $6,000 home. Or, they may take a second mortgage; the first mortgage for $3,000 and the second mortgage for $2,000.

Now, the building and loan association will sometimes take over these mortgages from the manufacturer who doesn't want to be bothered with the bookkeeping. They will take them over and collect them, giving the manufacturer a certificate of deposit which draws 5% interest in place of the mortgage loan which draws 7%. That gives them 2% margin for collecting and bookkeeping.

This is a benefit to both parties. The industrial concern does not want to be bothered with this bookkeeping, but they want steady workers. They furnish the homes and get steady workers, which they want. They have their money drawing 5% interest. As soon as this money is paid back, the building and loan association turns it over to the industrial concern. When the loan is paid down to the amount which it will lend, it pays that amount in full to the industrial concern. Or, in many cases where they find they can, they pay him 50% of the value, right at the start, and give him a certificate of deposit, which is paid to him as soon as the home owner has reduced the loan to that extent.

Prompt Replies to Applicants

Now, another phase of this subject. Here is a great opportunity for you fellows who are in the lending business. By giving prompt answers when applications come to you, letting the applicant know that day, or within two days at least, whether you can meet his requirements or not, that is, a service which you realtors can render. If you cannot make the loan, tell him so, so that he can go elsewhere. He wants to borrow money and he has a right to know whether you can let him have it or not.

Include All Expense in Fee

Another good service being given by wide-awake loan agents I know of, is to include all the expenses of the loan in one commission, or fee. If your fee is to be 2%, or 3%, or 5%, or a stipulated amount, say $200, $500, or $1,000, whatever it may be, include in that, or make it large enough so that you can include in it, all the expenses of the loan, including attorney's fees, the costs of abstract preparation and recording of papers, and surveying, and title insurance, if those things are required.

In this way, he knows before he makes the loan, just how much money he will have after the loan is made. Borrowers like this system. They have been gyped so often by loan sharks—if we may call them that—by unexpected expenses, that they are fearful and wary of loan agents.

If you wish to build up a big clientele of borrowers, it will pay you to adopt this system.

Avoid "Retainers"

Another service is to charge no advance fee. In the long run it will pay you to adopt the slogan of "no fee unless there is a loan." Borrowers do not like to put up ten or twenty dollars in advance for an inspection, and then find they

are rejected. They feel they have nothing for their money. I know agents present here today who have adopted that slogan, who are making a great many more loans and a great deal more money by charging no fee unless they make the loan, than those who insist on having something for every inspection.

Bond Issues

With regard to the trust company loans on bond issues, I wish to say very little. There will be a talk on that tomorrow by another speaker. The trust company issues bonds in small denominations and sells them out to individuals, in two cases, chiefly.

One is where a conservative loan is so large it can not be handled by one investor, so they divide it up and sell the bonds to various individuals.

The second form is the bond issue where a good first mortgage loan cannot be had. In order to raise the money, a bond issue is put out and sold to unsuspecting buyers. One of this type of bond issues is on leased property, and insurance companies, most of them, will not make a mortgage where the building is being constructed on leased property. In order to borrow the money, then, he makes a bond issue and sells to people who don't know that this is not a first mortgage loan, but is subject to another encumbrance, the encumbrance of the lease.

Protecting the Investor

I believe some states require that there must be written right on the face of the bond that this is on leased property, or that it is a construction loan, on a building not yet completed, thereby giving notice to the purchasers.

As to loans from individuals, that cannot be dealt with, as each individual is different, each loan having its own features, depending upon the requirements of the lender.

Farm Loans

Just a little now on the subject of farm loans, and I am through. The Federal Land Banks will make loans for 50% of the value of the land, (the buildings not being taken into consideration), not exceeding $100 per acre; also, they will add to this 20% of the insured value of the buildings.

So that, altogether, you cannot get over 40% of the total value of the land and buildings from a farm loan bank. These are 6% loans so arranged that they pay out in 33 years.

Another competing loan is that of the Union Central Life Insurance Company of Cincinnati which makes practically all of its loans on farm lands on the basis of 6%, the same basis as Federal farm loans, so far as valuation is concerned. They are 15 year loans, however, and provide that if the loan is paid off within five years, it will pay back a bonus of one-half of one per cent. So that, if the bonus is paid back within the five year period, it costs the borrower only five and one-half per cent.

The Prudential Life Insurance Society will make farm loans in 31 states, five per cent interest, at from 40% to 50% of the value of the land, the buildings not being taken into consideration. This gives a lower rate of interest, even, than the others mentioned.

In summarizing, I would say that loan agents, bank cashiers, and insurance company comptrollers have come to realize that there is competition in the lending of money; not as in the past, having the attitude of granting favors when they make a loan, but they have come to realize that they must give service. They have had their day when they could dictate that "you can take it or leave it, as you please." That day is past. Money is plentiful and the borrower is going to have his day. He can shop around and get his loan to the best advantage.

I will say that loan agents who are able to adapt themselves to the new circumstances, the new conditions, will be well rewarded for their efforts. I thank you. (Applause.)

Discussion:

Appraisal Fees

Mr. Heselbarth (Pittsburgh): The gentleman spoke about the inadvisability of requiring appraisal fees. I find this a great difficulty in dealing with insurance companies in the matter of granting loans, especially in Pittsburgh, on account of a great many insurance companies not being represented there. It means, in order to get an appraisal, that you must send your request to the eastern home office of the company, say at Philadelphia, New York, Boston, or Springfield, Mass., and perhaps pay $50 to get an appraiser out there, and this $50 must be paid by the broker or the borrower himself, before the appraiser will come out.

Of course, the man is well compensated if the loan is made, but if it falls through, or he doesn't get a sufficient amount, it could not be very well expected that the broker or the real estate agent

should advance that for the borrower. Also, it is often difficult for him to advance it himself.

What about that, where the company is not represented in the locality?

Mr. Corbett: You cannot do otherwise in such a case as that. In the case I referred to, there are loan agents on the ground. All they have to do is to go out and inspect the property. In a great many instances they are asking an advance fee, which I think is improper.

W. B. Hilton (West Virginia): I would like to ask if that rule should apply where the fee is returned in case the loan is not granted, and where the fee is asked for in the first place to assure good faith.

Mr. Corbett: That's not so bad. However, I think you can do just as well by leaving it out. You say it is to insure good faith?

Mr. Hilton: I want to explain that often times where we have not collected the fee in advance, we have had our labor for nothing. They have changed their minds after our appraisal committee has done its work.

Mr. Corbett: Well, you might have to do that in your locality. However, the situation is being handled succesfully in other places, in the way I described, without requiring the fee in advance.

90 Per Cent Loans

Mr. Heselbarth (Pittsburgh): Mr. Corbett, in his remarks about trust companies and building and loan associations, said they loan 50% of their appraisals. That is not a fact. Building and loan associations will loan as much as 75%, 85%, and in Philadelphia 90%.

Mr. Corbett: There are a lot of us who would like to live in Philadelphia if we could get such loans as that. I never heard of it. We have a hard time getting 50% in this locality.

Co-operative Banks

Charles E. Lee (Boston): In Massachusetts we have what we call a co-operative bank, operating under state laws, very much like a savings bank, but more liberal. They more or less correspond with building and loan associations. Our co-operative banks are allowed to lend, and do lend, up to 80%.

Committee Makes Appraisals

James C. Simpson (Norristown, Pa.): We have in Philadelphia, a committee of three of the directors who examine all of the property and they get paid the enormous sum of $1.00 apiece. In eastern Pennsylvania we give 80% in one or two mortgages, generally in two.

Banks and trust companies now give 50%. Usually it is 60%, but in the present stringency they give 50%. The building and loan association will loan up to 80%. For example, a man is buying a home for $6,000, the building and loan, if he cannot get his first mortgage, will help him to get it. Then, the building and loan will loan him up to $4,800, which is 80%.

In many instances, if he can produce his rent book, to show that on the first day of every month he has paid his rent, and paid it regularly, we will go up to $5,000 on the six thousand.

Opposes One Fee for All Expense

Adolph Berman (Philadelphia): The speaker has suggested that to build up a clientele for loans it would be advisable to make a charge of so many dollars for the loan, including all expenses.

I represent seven building and loan associations and one mortgage company. We tried that plan and it was absolutely wrong. Let me give you an illustration: When a man comes in for a loan, say $5,000, and you have in your mind that you would like to charge 3%, this would be $150.00. It is not certain at that time what the title and recording charge will be. Sometimes the charge will be only $25 or $30 for the necessary expenses, and sometimes more. In order not to fool myself, I would have to charge the higher price, and the result would be that the borrower would suffer. You cannot tell, the moment the application comes in, what the other expenses may be. You don't know, for example, the situation as to mechanics' liens and all that.

Now, if you did not take those things into consideration at the start, it would mean you would have to collect $50 more than you have raised, and it would be an entire loss. So that I have come to the conclusion that the best thing is to tell the man that my charge is 3%, that is all I want; all the other expenses he pays at the title company when the opinion of the title comes through. The buyer is satisfied.

Hence, I think it is a mistake to make one charge for the title, for the commission on the loan, and recording and examination of the

papers, because sometimes they charge $6 for recording, and sometimes $10 for recording. You don't know what it is going to cost. I think you should charge only for what you expect to keep yourself.

Mr. Corbett: I would like to have Mr. Lee elucidate on that subject. He has had a somewhat different experience in Boston.

Favors One Fee on Seconds

Mr. Lee (Boston): I think Mr. Berman is exactly right in a great many loans. In Boston, I do quite a little in both first and seconds. I find on seconds, in making a comprehensive and inclusive charge, that that is the wise thing. The borrower, on seconds especially, is very much afraid of getting into the hands of people who are sharp and over-reaching, and people who will charge $100 for a title that is only worth $25.

Gives Borrower the Option

So that, when they come to me, as a broker, and I say to them, "I will charge you 2% commission; title will probably be about $50, recording so much, I cannot tell exactly; you can pay all those charges, or if you would like, I will make my bill so much money and I will pay everything"—I usually make that on an average basis. I have had some experience with conveyancers, and know about what their charge is. So that, on the average, I am safe. I find at least nine out of ten of the borrowers on the seconds, and usually on the first, are glad to get that flat charge.

Flat Charge in Michigan

Mr. K. D. Cassidy (Flint, Michigan): The plan that works out most successfully for us is to charge a flat commission and to pay all expenses. When the client comes in and makes application for a loan, we tell him the commission is so much and that includes all expenses, and he must furnish us his abstract posted up to date. We find that to work out successfully.

Very Few Foreclosures

Mr. B. J. Treacy (Lexington, Ky.): I would like to ask about the percentage of foreclosures on the loans where they are made up to 80% or 90% of the value of the property.

Mr. Simpson (Norristown, Pa.): In answer to that I would say about one tenth of one per cent of all second mortgage loans, to my knowledge, ever reach the sheriff's office. I think I am right on that.

Debentures Against Mortgage Collateral

Mr. Ernest L. Hall (Tampa, Fla.): I would like to ask what experience has been had in issuing bonds against accumulations of first mortgages in varying amounts. For instance, take fifty or one hundred thousand of first mortgages in amounts of one, five, or ten thousand dollars, and issue bonds against them for a longer period than the mortgages would run, with a trust agreement whereby the mortgages could be paid from time to time, and replaced by others running for five or ten years.

We contemplate a new source of mortgage money by selling serial bonds issued against mortgages, putting out mortgages which would be in varying amounts, issuing collateral bonds and selling the bonds, the object being to provide funds which might not be obtainable from individuals in the amounts of the mortgages.

J. Albert Robbins (Knoxville, Tenn.): That has been worked very successfully in our locality.

Mr. R. G. Lambrecht (Detroit, Mich.): The proposition is not sound. The mortgages first selected might be sound, while the substitutes might not be good. They would find they have mortgages that are not worth 100 cents on the dollar. We had a situation like that in Michigan, and the banking commissioner made them cancel their trust agreement, which was made on that basis.

Mr. Ed. S. Porth (Milwaukee, Wis.): In Wisconsin, we have an association organized by a lot of bankers that followed that plan. They called it the "Wisconsin Securities and Mortgage Company." They do it mostly on farm loans. They put them all in a pot and issue bonds against them. If they have $100,000 worth of mortgages, they really should not put $100,000 worth of bonds against them. They should have a leeway, and only issue $80,000 or $90,000 worth of bonds against them. That leeway is so that the man who furnishes the money will be protected. It is not fair to go up to the $100,000.

REAL ESTATE MORTGAGES AS INVESTMENTS FOR INSURANCE COMPANIES

A comparative study of the incomes of life insurance companies from real estate securities and other forms of investment showing the effect of changes in policy and the desirability of the mortgage loan.

Prepared by

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For the

National Association of Real Estate Boards
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Foreword

The study of mortgage loan investments of life insurance companies in the United States, which is presented herewith, constitutes a strong argument for investment in real estate securities. The data upon which this study is based were assembled for the National Association of Real Estate Boards by the Alfred M. Best Company, publishers of Best's Insurance Reports, New York City. The annual reports of two hundred and one insurance companies in the United States for the years 1915 to 1921 inclusive have been studied and analyzed. Insurance companies whose admitted assets are less than $500,000.00 have not been included.

The analysis of the data, which constitutes this document, has been prepared by the Institute for Research in Land Economics and Public Utilities, of Madison, Wisconsin, of which Dr. Richard T. Ely is Director. The conclusions are presented without prejudice and no attempt has been made to prove any thesis. The National Association of Real Estate Boards wishes to acknowledge its indebtedness to Dr. Richard T. Ely and his associates for the careful and scholarly work which they have done.

This report is published by the National Association for the use and information of its members and the public.

Herbert U. Nelson,
Executive Secretary.

June 20, 1923.

REAL ESTATE MORTGAGES AS INVESTMENTS FOR LIFE INSURANCE COMPANIES

IT would be interesting to know the motives which prompt men to select one kind of investment for their savings, rather than others of the many types offered on the market. Some of us are old fashioned enough to believe that it is largely a matter of profits, and that we naturally seek the kind of paper which not only promises the largest safe return, but which also has a consistent record of interest payment for a considerable period past. But it seems we are mistaken. If this were the only motive that prompts men, the earnings on investments shown both by individuals and by the large life insurance companies would tell a different story.

It is commonly believed that the investments of the large life companies are in the hands of men so familiar with the workings of the investment markets and with the relative values of various offerings that no serious mistakes are possible. The net earnings from such investments should therefore, on the average, continually reflect the highest safe returns that the course of credit will permit, and the natural trend of such interest rates should at least be steady, or even perhaps increase for the individual company.

A careful study of the reports of the leading life insurance companies of the United States, however, fails to reveal such a consistent increase. In fact we find that, in the face of higher earnings being secured by some of the companies, a large number of others continue to pursue a course which nets them less income than could readily be received by a change in their investment policy. Is it possible that those companies which are apparently satisfied with a continually decreasing return have in reality found that control of industry by ownership of stocks and bonds offsets the falling money income?

An examination of the reports of the life insurance companies allows us to distinguish two definite groups between the years 1915 and 1921: (1) Those which have followed the policy of increasing their investments in mortgage loans, and (2) those which have increased their investments in stocks and bonds. Table I shows the geographical location of the home offices of the several companies which fall in each group. Either policy results of course in a relative decrease in the amount of investment in the other type of security, although the absolute amount of money shown on the books may not necessarily decline. These are long-time loans, and a decrease will only be evident after maturity and payment. The growth of the companies permits additional funds to find their way into the favored type of investment, thus leaving the absolute amount of the abandoned type practically unchanged.

Table I

Grouping of Life Insurance Companies According to Investment Policy and Location of Home Offices for Years 1915-1921

Location of Home Office	Number of Companies Following Policy of		All Companies (1)
	Increasing Mortgage Investments	Increasing Stocks and Bonds	
All	56	136	192
New England States	5	11	16
New York	4	7	11
New Jersey and Pennsylvania	2	10	12
Other Atlantic States	4	12	16
North Central States	34	52	86
South Central States	6	23	29
Western States	1	17	18
Canada	..	4	4

(1) *Nine companies out of a total of* 201 *were not included because they could not be classified into the above groups.*

Those who are familiar with the rate of interest commonly paid on mortgage loans will readily appreciate the causes for the decline in the earnings of those companies which divert their funds from such investments to the uncertainties of stocks and bonds. It is this loss of income to which this study undertakes to bring attention.

Possible loss of capital is commonly supposed to be negligible in the case of large companies, because of the skill of the investing officials who select only the soundest kind of investment for their funds. But even this impression has recently been shattered by the testimony introduced before the Committee on Housing of the New York Legislature.

The president of the Mutual Life Insurance Company admitted before this committee that his company had lost millions of dollars of policy holders' money due to the shrinkage in the value of stocks and bonds, that could have been sold in years past for more than their present value. On stocks with a book value in 1906 of $34,096,453 held on December 31, 1920, there was a loss on the latter date through depreciation of $10,000,000. The authority is in the hands of the New York State Superintendent of Insurance to control the purchase of such investments of life insurance companies located in that state. The law restricts the type of investments which they may make, and they fare better than most companies in other states in regard to quality of their investment at present. These companies as a group are already realizing the advantages of real-estate mortgages, and they are slowly increasing their holdings, as shown by the four large companies whose assets and mortgage investments for 1921 and 1922 appear in Table II. These four companies may be considered as a fairly representative sample of the group of companies located in New York.

Table II

Increase in Mortgage Investments of Four Life Insurance Companies in New York 1921-1922

Company	1921			1922		
	Mortgage Investments	Ledger Assets	Per Cent of Mortgages to Ledger Assets	Mortgage Investments	Ledger Assets	Per Cent of Mortgages to Ledger Assets
Four Companies	$794,426,502	$3,284,495,898	24.18	$922,225,226	$3,449,938,664	26.73
New York Life (1)..	172,570,162	958,097,587	18.00	176,610,162	958,097,587	18.43
Mutual Life (2)....	104,113,529	685,677,204	15.18	114,872,012	696,765,273	16.49
Metropolitan Life (3)	378,278,637	1,012,242,173	37.37	468,290,587	1,151,156,804	40.68
Equitable Life Assurance Soc. (4)	139,464,174	628,478,934	22.19	162,452,465	643,919,000	25.23

(1) *June* 1, 1922.
(2) *May* 29, 1922.
(3) *Mar.* 31, 1922.
(4) *May* 29, 1922.

The Lockwood Committee heartily endorses this recent policy of the life-insurance companies, but it as heartily condemns the *fire*-insurance companies for their failure to follow the good example. Not only have the fire-insurance companies failed to assist in relieving the housing shortage, by buying mortgages, (even though the sole source of premium income is from buildings), but they have also wasted vast sums of capital in unprofitable investments in stocks and bonds. A discussion of these capital losses here would take us too far afield, but the committee's report is in print and will repay a careful study.[1]

Unfortunately, many life companies located outside of New York State have not yet seen fit to follow the trend toward mortgage loans. Mere generalizations in regard to policies of all the companies would mean little, however, and it was in order to determine just what these policies are, and their effects on the corporate income that this study was undertaken. It includes the reports of the 201 life-insurance companies which have so classified their investments as to make comparison possible. These reports are comprehensive enough to allow scientifically accurate conclusions to be drawn from them. Where they lack completeness is mainly in the omission of items for certain years, due to changes in bookkeeping methods. All such omissions have been cared for in the analysis by the use of averages based on all available data, but computed only for the number of companies reporting.

The period covered is from 1915 to 1921, which comprises the major portion of a business cycle during which we had one of the most abrupt price movements in the history of the United States.

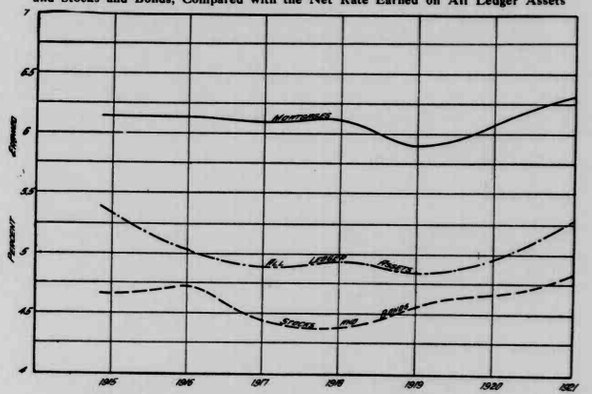
The analysis shows that those companies which adhered to the policy of increasing their mortgage investments were able to increase, very substantially, their earnings throughout the period; while those following the opposite policy decreased their earnings. The average rates earned by all of these companies has

[1]Legislative Document, No. 43, State of New York, pp. 63-72. Final report of the Joint Legislative Committee on Housing. Albany, 1923.

been plotted by years in Chart I. This chart shows graphically the considerable advantage in rate of return to be secured from mortgage investments over that received by investments in stocks and bonds. The average advantage of investing

Chart I

Average Gross Rate of Return Earned by Insurance Companies on Mortgage Loans and Stocks and Bonds, Compared with the Net Rate Earned on All Ledger Assets



(1) *An average of* 182 *companies reported earnings on mortgages, an average of* 165 *companies reported earnings on stocks and bonds and* 180 *earnings on net ledger assets.*

in mortgages over stocks and bonds is 1.49% per annum or practically a 25% advantage in favor of mortgage investments. (Average gross rate on mortgages is 6.1; on stocks and bonds 4.6. See Table III.)

Table III

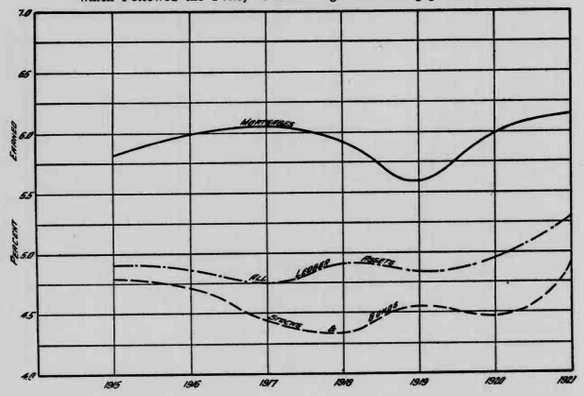
Comparison of the Average Gross Rates of Income Earned By Insurance Companies on Mortgages and Stocks and Bonds

Year	Average Gross Rates Earned		Disparity
	On Mortgages	On Stocks and Bonds	
Simple Average	6.10	4.61	1.49
1915	6.13	4.69	1.44
1916	6.13	4.72	1.41
1917	6.10	4.43	1.67
1918	6.12	4.38	1.74
1919	5.90	4.55	1.45
1920	6.08	4.66	1.42
1921	6.27	4.81	1.46

This is true for the companies as a whole considered regardless of their investment policy, and the earnings of those 56 companies which have followed the policy of increasing their investment in mortgages definitely reflect this advantage. The rate of return earned by the latter companies is shown in Chart II. At the beginning of the period, this group of companies was earning an average of 4.91% on their "mean ledger assets" but by the end of the period this rate had increased to 5.27%. "Mean ledger assets" are an average of all items that may properly be considered assets, whether or not they are so invested as to earn an income. They include checking accounts, accounts receivable from agents, etc., on which no interest is earned, so that the income received from investments is diluted in the proportion which these dead items bear to the total. One explanation of low earnings by individual companies for certain years will probably be found to lie in the slow turnover of premium surplus into earning investment. The rate of return on all assets is therefore a truer index of the earning capacity of the company than the rate earned on a single type.

Chart II

Average Gross Rates of Return Earned by an Average of 55 Insurance Companies which Followed the Policy of Increasing Their Mortgage Investments



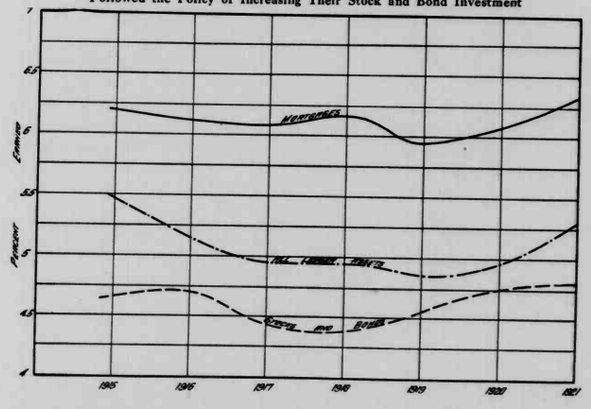
The net rate declined 0.08% for 1916 and for 1917; advanced 0.16% in 1918; dropped 0.09% in 1919; and then climbed in the succeeding years to a net gain of thirty-six hundredths of one per cent (0.36%) for the period. The long time trend was decidedly upward. The income earned upon the stocks and bonds held by these companies, for such investments as they have made of this type, is closely comparable to the rate earned by that group of companies which increased their investments in stocks and bonds. Actually the whole range is slightly higher,

which may be taken to indicate the greater care taken by the officials of our "increasing" group, not only in selecting their mortgage loans, but their stock and bond investments as well. In 1915 the "increasing mortgage" group was earning an average of 4.77% on their stocks and bonds, and by 1921 the rate had advanced 0.10% to 4.87%. In the same period the second group had increased its stock and bond rate 0.13% per annum, but it had climbed only to 4.79%.

The average gross rate earned by this latter group of companies has been plotted in Chart III. It is interesting to note that in spite of the increased rate of return earned by these companies upon their mortgage investments a total of 136 companies decided against the type of investment which earned for them the greater amount of money and diverted their funds to other uses. This Chart III shows an average of 114 companies' reports, since the others were too incomplete for use. The "decreasing" group earned an average of 6.23% on their mortgages in 1915 and 6.33% in 1921, an increase of 0.10%; while their average rate on stocks and bonds rose only from 4.66% to 4.79%. This lower average rate is the sort of thing that may be expected from stock and bond investments, in view of the large number of "passed" dividends in any period of depression.

Chart III

Average Gross Rates of Return Earned by an Average of 114 Companies which Followed the Policy of Increasing Their Stock and Bond Investment



When the 1922 figures are available, it will be worth while to see what further effect the reduction of dividends had upon earnings. Dividend payments during 1921 were in a considerable measure based on earnings realized prior to the spring of 1920. One group of 40 miscellaneous corporations, with $810,000,000 capital outstanding, passed dividends which normally would have amounted to over $17,000,000. A comparison of all the rates of return together with the

net change for the rates of return together with the net change for the period is shown in detail in Table IV.

Table IV

Average Rates of Return Earned By Insurance Companies on Principal Types of Investments for Years 1915 to 1921

Year	Per Cent of Returning Assets Received on Various Earning Assets								
	Average Gross Rate Earned on Mortgage Loans			Average Gross Rate Earned on Stocks and Bonds			Average Rate Earned on Ledger Assets		
	All Companies (1)	Companies Increasing Mortgage Investments (2)	Companies Decreasing Mortgage Investments (3)	All Companies	Companies Increasing Stocks and Bonds	Companies Decreasing Stocks and Bonds	All Companies	Companies Increasing Mortgages	Companies Increasing Stocks and Bonds
Net Change	0.14	0.36	0.10	0.12	0.13	0.10	0.05	0.36	0.20
1915...	6.13	5.80	6.23	4.69	4.66	4.77	5.32	4.91	5.47
1916...	6.13	5.98	6.19	4.72	4.72	4.72	5.06	4.83	5.16
1917...	6.10	6.08	6.12	4.43	4.43	4.44	4.88	4.75	4.95
1918...	6.12	5.90	6.21	4.38	4.41	4.33	4.93	4.91	4.95
1919...	5.90	5.62	5.95	4.55	4.55	4.56	4.82	4.82	4.83
1920...	6.08	6.00	6.12	4.66	4.75	4.48	4.96	4.96	4.95
1921...	6.27	6.16	6.33	4.81	4.79	4.87	5.27	5.27	5.27

(1) *An average of* 169 *companies reported.*

(2) 55 *companies increased their investment in mortgage loans in the period* 1915-1921. *(Average.)*

(3) 114 *companies increased their investment in stocks and bonds resulting in a relative decrease of their mortgage investments, although not always an absolute decrease. (Average.)*

In order that the trend of investment may be more clearly understood for the two groups of companies which follow the different policies mentioned, the comparative changes in the amount of their mortgage loans have been compiled and are shown in Table V. The averages for all companies are given in the first

Table V

Comparison of the Proportion of Admitted Assets Invested In Mortgages By 55 Companies Increasing Their Mortgage Investments with the 114 Companies which Followed a Policy of Decreasing Their Mortgage Investments 1915-1921

Year	Average Mortgage Loans, Expressed as Percentages of Total Admitted Assets					
	All Companies		Companies Increasing Mortgage Investments		Companies Decreasing Mortgage Investments (1)	
	Number of Companies	Per Cent of Admitted Assets	Number of Companies	Per Cent of Admitted Assets	Number of Companies	Per Cent of Admitted Assets
1915....	175	51.2	48	43.9	127	53.9
1916....	183	51.1	51	47.4	132	52.5
1917....	188	50.8	56	49.6	132	51.3
1918....	184	48.1	55	47.8	129	48.2
1919....	186	46.1	57	49.4	129	44.6
1920....	191	47.5	57	53.8	134	44.7
1921....	192	46.3	58	54.5	134	42.6

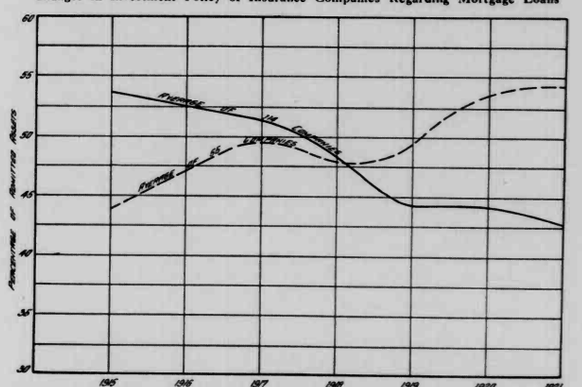
(1) *Some decreases are relative to amount invested in stocks and bonds, not absolute decreases; that is, the investment policy of the company is to increase stocks and bonds.*

column, while in the second and third columns these averages are distributed according to investment policy. For completeness, the number of companies averaged is given in each classification. The loans are expressed in this table in terms of percentages of the total admitted assets of the companies rather than in absolute amounts of dollars and cents.

The companies which followed the policy of increasing their stock and bond investments (decreasing mortgages) had an average of 53.9% of their investments in the form of mortgage loans in 1915 but this decreased to 42.6% at the end of the period. Almost the reverse of this situation is true in regard to the companies which followed the policy of increasing their mortgage investments. In 1915 they had 43.9% in mortgages, but had increased the proportion to 54.5% by 1921. That they have been wise in following this policy is clearly indicated if Chart IV in which this data is plotted is compared with Charts I, II and III showing the interest return upon these assets.

Chart IV

Changes in Investment Policy of Insurance Companies Regarding Mortgage Loans



(1) *Compare with Charts II and III showing the rate of return secured under the two policies.*

For three years there was a definite and direct relationship between the changes in mortgage loans of the "decreasing" group and the rate of return on such loans, as may be seen by comparing Tables IV and V. Officials of these companies, who look with disfavor on mortgages, dropped out of the mortgage market with each successive decline in the mortgage interest rate, during 1915, 1916, and 1917, until about half their funds were in this form. By this time a definite policy against such loans must have been formulated, for on the temporary

upward swing in the mortgage rate for 1918, they showed no interest in the market. Having once set the precedent, even the sharp advance in rates on their own holdings (5.95 in 1918; 6.12 in 1920; and 6.33 in 1921) was not sufficient to induce them to seek further commitmcnts in the field of mortgage loans. By 1921 only two-fifths (42.6%) of their holdings were mortgages.

In order that these percentage figures may not be misleading, the total amount of the principal investments of all the insurance companies under investigation has been compiled and is shown in Table VI for the two years 1915 and 1921 only. This will indicate at a glance what the growth of the companies has been in the period under discussion. No attempt has been made to indicate causes of such growth. By the use of the arithmetic average in compiling the data such temporary set backs as may have been experienced by individual companies for particular years are offset by the normal growth of the major part of the group.

Table VI also shows the relative movement of such investments between mortgages and stocks and bonds. The most significant fact is that, whereas at the beginning of the period in 1915 the relationship of mortgage loans to stocks and bonds was as 10:15 for the average company, at the end of the period it had increased so that it stood practically at the ratio of 14:18; an advantage of 16.6% in favor of mortgages.[1]

Table VI

Comparison of the Absolute Amounts Invested By Insurance Companies in Mortgages and Stocks and Bonds In Years 1915 and 1921 (1)

	1915		
	Total for all Companies	Number of Companies	Average Per Company
Total Admitted Assets..	$4,337,379,475	181	$23,963,422
Mortgage Loans.....	1,815,712,826	181	10,031,562
Stocks and Bonds.....	2,253,202,950	146	15,432,896
Other Assets (2).....	268,463,699	...	.....
	1921		
	Total for all Companies	Number of Companies	Average Per Company
Total Admitted Assets..	$7,284,880,099	200	$36,424,400
Mortgage Loans.....	2,845,049,199	198	14,368,935
Stocks and Bonds.....	3,612,009,493	199	18,150,801
Other Assets (2).....	827,821,407	...	.....

(1) *Averages here shown are more significant than totals, since data are not available for all companies for both years. Totals are sufficiently complete, however, to indicate closely the absolute growth of the principal insurance companies of the United States in this period.*

(2) *"Other assets" include checking accounts, accounts receivable from agents, etc., upon which no interest is earned.*

[1]Proportionate increase would have been from 10:15 to 14:21. Actually it was 14:18. Hence 21—18—3, or less than expected by 3/18 or 16.6%. Stock and bond investment did not hold its own with mortgage increase by this 16.6%.

The definite tendency shown here to increase average mortgage loans per company, in spite of the fact that a very much smaller number of companies at present follow this policy, is a clear indication that the officials of the largest and strongest insurance companies are awake to the fact that the type of asset which is most profitable to them in the long run is the mortgage loan.

It is true that the absolute increase of mortgages for 1915 to 1921 (56.7%) is less than that for stocks and bonds (60.3%). Data are available for only 146 companies showing the 1915 stock and bond investments, whereas 181 report mortgages. Hence a considerable portion of the "other assets" probably belong in the stock and bond classification for 1915. Some of the "other assets" are temporary items awaiting investment. For these reasons averages for this class have not been computed, since they would be misleading.

MAXIMUM AND MINIMUM INTEREST RATES

Because averages fail to show the true situation as far as the individual company is concerned, the maximum and minimum interest rates earned each year on the different types of assets have been compiled and are shown in Table VII.

Table VII

Maximum, Minimum, and Average Interest Rates Earned By Insurance Companies on Various Types of Investments 1915-1921

	Net Rates on all Ledger Assets			Gross Rates on Mortgage Loans			Gross Rates on Stocks and Bonds		
	Average Per Cent	Maximum Per Cent	Minimum Per Cent	Average Per Cent	Maximum Per Cent	Minimum Per Cent	Average Per Cent	Maximum Per Cent	Minimum Per Cent
1915	5.32	7.2	2.5	6.13	9.6	4.7	4.69	8.5	0.3
1916	5.06	7.1	2.3	6.13	9.7	4.6	4.72	8.4	0.3
1917	4.88	8.8	0.5	6.10	8.4	1.1	4.43	9.2	0.3
1918	4.93	6.7	1.9	6.12	9.2	2.0	4.38	8.4	0 2
1919	4.82	7.5	2.2	5.90	8.5	3.8	4.55	7.8	1.6
1920	4.96	6.9	0.5	6.08	9.9	2.1	4.66	8.1	0.7
1921	5.27	6.8	1.7	6.27	9.2	3.8	4.81	7.4	0.9

It will be well to call attention to the fact that wherever low interest rates occur in a given year for a particular insurance company, especially in the case of a gross rate, this probably is due to the fact that the given year shows a considerable change in the type of investment (in some cases the increase in a single type in one year was as large as $11,000,000). This naturally resulted in a loss of interest for the portion of the year that the money was idle. In some cases it was caused by loss of capital from the sale of securities at less than book value.

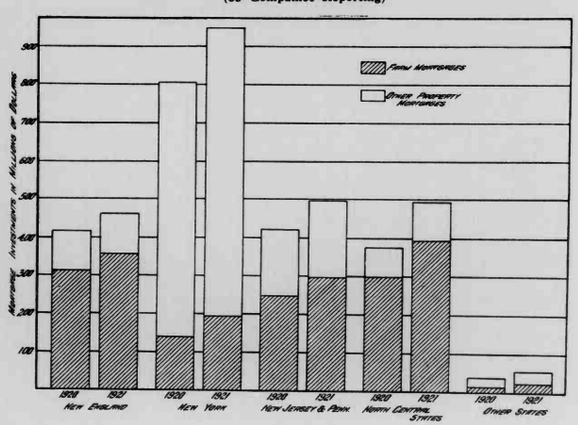
It would be interesting to know the extent of such capital losses for all the insurance companies of the United States.

TYPES OF MORTGAGE INVESTMENTS

A comparatively small number of the companies investigated (49 in all) report such a division of their assets as enables us to analyze the mortgage loans into "farm mortgages" and "other properties". These other properties consist very largely of city real estate. In order that we may more definitely have before us the policies which have been followed by the managers of the insurance companies in regard to this division of their investments, the companies were divided according to the geographical location of their home offices. The following divisions were used:—New England States, New York, New Jersey and Pennsylvania (taken together), North Central States (which includes the usual census grouping of east and west North Central States), and the "other states" of the Union. The locations of the properties on which mortgage investments were made by these companies were not considered. It was intended to show definitely which type of mortgage security is preferred by the home offices of the several companies. This is shown in Table VIII and Chart V.

Chart V

Proportion of Insurance Companies' Mortgage Loans on Farms and Other Property, 1920 and 1921, Classified According to Location of Home Offices (35 Companies Reporting)



In New England and the North Central divisions of the country we find the heaviest investment in farm mortgages, followed more or less closely by the New Jersey and Pennsylvania group; but the New York companies have preferred very definitely the "other property" type of mortgage investment.

Table VIII

Mortgage Loan Investments of Certain Life Insurance Companies In 1920 and 1921, Showing the Amounts Placed In "Farm Mortgages" and In "Other Properties"

Location of Home Offices of Companies	1920 (1) All Mortgage Loans	1920 (1) Farm Mortgages	1920 (1) Other Properties
Total	$2,050,445,814	$1,008,630,652	$1,041,815,162
New England	417,500,537	311,557,820	105,942,717
New York	802,573,467	139,122,685	663,450,782
New Jersey and Pennsylvania	420,282,070	246,448,626	173,833,444
North Central States	376,180,466	297,785,750	78,394,716
Other States	33,909,274	13,715,771	20,193,503

Location of Home Offices of Companies	1921 (2) All Mortgage Loans	1921 (2) Farm Mortgages	1921 (2) Other Properties
Total	$2,455,380,793	$1,257,943,297	$1,197,437,496
New England	460,224,516	350,604,725	109,619,791
New York	948,173,042	192,474,189	755,698,853
New Jersey and Pennsylvania	498,550,973	296,259,388	202,291,585
North Central States	494,822,841	394,984,860	99,837,981
Other States	53,609,421	23,620,135	29,989,286

(1) *Only 35 insurance companies in 1920 reported the division of their mortgage loans into "farm" and "other properties." Seven of these companies report no farm mortgages, all being in "other properties."*

(2) *45 companies reported in 1921. Of these seven report no farm loans.*

The small division called "other states", which includes the south and the west, at first favored the "other properties" in the ratio of 20:13; but in 1921 this ratio was reduced to 29:23, which more nearly corresponds to what might be expected in districts predominantly agricultural.

It would be interesting to know why these policies have been followed. To assume that the New York companies have followed the policy of buying city real estate mortgages merely because of the predominance of that type of security in their own neighborhood may be entirely justified, and we already know of the legal pressure on them in this direction. But to say that the New England companies should follow the policy of investing largely in farm loans would, of course, be absurd, since the Association of Life Insurance Presidents has found that the several New England states have by far the smallest number of farm-mortgage loans in the entire period from 1914 to 1921.

Table IX

Farm Loans of Life Insurance Companies Classified According to States In which Placed, 1914 and 1921

State (1)	Farm Loans Outstanding		Per Cent Increase 1914-1921
	December 31, 1921	December 31, 1914	
Iowa	$ 317,446,188	$139,511,101	127.54
Kansas	104,946,849	60,395,448	73.77
Missouri	100,383,988	58,406,800	71.87
Nebraska	99,807,784	62,390,393	59.97
Minnesota	89,878,527	33,981,293	164.49
Texas	84,770,566	32,242,856	162.91
Indiana	77,519,390	47,014,148	64.89
Illinois	73,504,443	49,941,759	47.18
South Dakota	64,963,018	26,950,777	141.04
Oklahoma	49,032,106	28,056,308	74.76
Georgia	38,064,246	14,828,323	156.70
North Dakota	26,228,995	18,142,858	44.57
Ohio	24,837,077	16,588,937	49.72
Tennessee	21,125,146	9,386,015	125.07
Mississippi	19,950,883	2,719,824	633.54
Arkansas	14,254,111	3,851,605	270.08
Kentucky	12,409,635	6,282,692	97.52
South Carolina	10,831,420	3,377,477	220.70
North Carolina	10,356,109	1,475,010	602.10
Alabama	10,007,763	1,102,313	807.89
California	8,708,511	8,736,255	.32
Washington	7,961,162	2,391,781	232.85
Idaho	6,924,710	2,754,254	151.42
Montana	6,523,128	2,900,458	124.90
Louisiana	6,015,206	1,379,502	336.04
Oregon	5,010,036	1,107,912	352.21
Wisconsin	4,231,839	2,003,744	111.20
Colorado	2,232,728	2,945,316	24.19
Virginia	1,907,794	645,450	195.58
New Mexico	1,854,606	1,306,042	42.00
Arizona	1,325,250	407,602	225.13
Michigan	1,274,383	1,252,126	1.78
Utah	653,668	1,192,602	45.19
Florida	568,334	66,004	761.06
New Jersey	313,665	16,965	1748.89
Porto Rico	309,009	185,836	66.28
Wyoming	151,187	241,947	37.51
Nevada	80,000	11,500	595.65
New York	70,650	10,950	545.21
Pennsylvania	51,750	331,156	84.37
Maryland	43,000	423,000	89.83
Massachusetts	10,900	10,100	7.92
Connecticut	10,300	75,050	86.28
Vermont	4,750	13,775	65.52
Maine	2,500	5,950	57.98
West Virginia	2,500	40,907	93.89
Delaware	.....	45,100	100.00
Totals	$1,306,559,810	$647,147,221	101.90

(1) *No farm loans reported in Dist. of Columbia, New Hampshire and Rhode Island.*

The cost of investigating and purchase of all mortgages is an important factor in their use as an investment. Such added costs as are incurred, however, are more than offset by increased returns. The variation in cost between farm and other mortgages might be worth investigating, since the marked differences in policy as indicated in Chart V would seem to be caused by some element other than stability of value of the properties.

FARM MORTGAGE LOANS

In the year 1921 the state of Iowa had the largest proportion of farm-mortgage investments of the insurance companies, amounting to $317,446,188. Its nearest competitor was the state of Kansas with $105,000,000; followed closely by Missouri with $100,000,000; and the other states of the Middle West with decreasing amounts. Other states of the Union received scant recognition from the insurance companies in their mortgage loans in that year, but we find them even of as small an amount as $2,500. The states of Maine, West Virginia, Delaware, the District of Columbia, New Hampshire and Rhode Island received no farm mortgage investments from the insurance companies in 1921. The farm-loan investments shown in Table IX were computed by the "group method" for the Association of Life-Insurance Presidents, and are arranged in the order of outstanding loans, on Dec. 31, 1921 and Dec. 31, 1914, with the percentage of increase or decrease for each state for the period. The totals do not agree with those shown in Table VIII since the companies reporting were not the same in both instances.

The report to the Association of Life-Insurance Presidents also showed the changes in investments of this group of companies from 1911 to 1921. These changes are reproduced herewith in Table X. The items of chief significance in our study are the tremendous increase in mortgage loans in comparison to all other types of investments, and the relative decline in stocks and bonds and other

Table X

Proportion of Insurance Companies' Investments In Mortgages and Other Assets In 1921 Compared with Amounts So Invested in 1911

Class of Investment	1911		1921		Percentage Increase 1911-1921
	Total in Millions	Per Cent of Admitted Assets	Total in Millions	Per Cent of Admitted Assets	
All:	3881	100	7447	100	91.88
Mortgage Loans	1228	31.65	2557	34.33	108.14
Bonds and Stocks	1825	47.02	3400	45.60	86.30
Other Assets	828	21.33	1490	20.07	79.95

assets. Where the total assets increased 91.88% for the period, mortgage loans increased 108.14% nearly one-sixth more than the increase of all assets and nearly one-fourth faster than stocks and bonds.

As a class, the insurance companies are recognizing the growing importance of a type of investment which yields them a maximum income, regardless of the control of industry which may have formerly played an important part in their selections.

Such maximum returns are only possible when safety of principal is found in the same security with large yield, and the evidence of all the material which has been examined in this study is in favor of the mortgage loan as the one in which this most desirable combination is to be secured.

It should not be understood that this is a recommendation that all the assets of insurance companies be invested in real estate mortgages. Policies must change from time to time and it is evident that the returns might have been very different had all the investments taken the form of land mortgages. The purpose of this study was to make a comparison of the returns received from various classes of investments; and it remains for all concerned to use these data and conclusions in accordance with their own judgment.

REPORT ON

INSURANCE COMPANIES' MORTGAGE LOANS

BY S. S. THORPE

Minneapolis, Minnesota, June 27, 1923

(A report to the Cleveland Convention of the National Association of Real Estate Boards.)

IN the latter part of 1920 the Research Bureau of the National Association of Real Estate Boards worked up a list of the leading life insurance companies, showing the total per cent of their assets that these companies had invested in real estate mortgages and the interest earned on mortgages, as compared with the per cent invested in stocks and bonds and the per cent earned on stocks and bonds. In that list of 208 companies, it was very astonishing to note the very decided difference in the returns received on the two classes of investments. This report attracted a good deal of attention at that time.

Reviewing the same basic figures for 1921 with those to January, 1923, of the companies that had $5,000,000.00 of assets or over in the year 1921—78 life insurance companies—it is interesting to note that:

From 1921 to 1922

(1) 44 different companies **increased** the per cent of their **mortgage investments;**
(2) 29 companies **decreased** the per cent of their **mortgage investments;**
(3) 53 companies **decreased** the per cent of their holdings in **stocks and bonds;**
(4) 22 companies **increased** the per cent of their holdings in **stocks and bonds.**

While from 1917 to 1921

(5) 55 companies **decreased** their investments in mortgage loans;
(6) 47 companies **increased** their investments in stocks and bonds;
(7) 18 companies **increased** their investments in mortgage loans;
(8) 27 companies **decreased** their investments in stocks and bonds.

Of the 78 companies for which 1921 and 1922 statistics are given, one shows no change and four companies evidently did not have assets of $5,000,000.00 or over prior to 1922.

It will be readily noted by comparing items 1 to 4 with items 5 to 8 that there is a very marked tendency on the part of the insurance companies within the past year to increase their investments in mortgage loans.

Since our first bulletin on this subject, in February, 1921, a Legislative Committee of the State of New York, commonly known as the "Lockwood Committee," with the Honorable Samuel Untermyer, their leading counsel, have made a very exhaustive investigation of the investments of life insurance companies. They had over fifty accountants, for more than a year, looking into this matter, and I now quote from their report.

Their conclusions after the investigations of the insurance companies' investments are very striking and instructive, and should be a great example for investors.

The conclusions are as follows:

"Conclusion No. 1—The ratio of income earned on mortgage loans by all classes of both insurance companies and banking institutions has been greater by approximately one per cent and most constant almost invariably than has been the rate of income earned on bonds and stocks."

"Conclusion No. 2—Notwithstanding the greater earning power, stability and safety of mortgage loans as investments, the insurance companies and the banking institutions, with the exception of the savings banks, have invested, generally, the greater portion of their resources in bonds and stocks."

"Conclusion No. 5—The insurance companies of other states of all classes have invested, on the average, a far greater portion of their available resources in mortgage loans than have the companies of New York State."

"Conclusion No. 10—The fire, marine and casualty insurance companies, particularly the latter, have invested as a rule a mere fraction of their resources in mortgage loans as compared with the life insurance companies and savings banks."

This same committee calls attention to the large assets of the fire, marine and casualty insurance companies, and calls attention to the **very small percentage** of their assets invested in real estate mortgages, varying from .42 of one per cent to 5.6 per cent, and also points out that a very large amount of their holdings is invested in miscellaneous stocks.

The question arises, why these fire, casualty and marine companies, with their large assets, do not invest in real estate mortgages.

The mortgage and investment brokers have been led to believe and to understand that these companies claim they need "quicker" assets in

their business than the real estate mortgage; and, in this connection, it is interesting to note what this same Legislative Committee has to say:

"The fact is that a well secured mortgage loan on improved real property in a great city which represents not to exceed two-thirds of the value of that property, besides being a safer and better paying security is more liquid than any form of security other than a Government, State or municipal bond. An examination of the security holdings of the stocks, bonds and notes held by the great financial companies discloses that whilst a substantial proportion of them are listed on the exchanges and have a public market, in most cases it is a limited market that would not absorb a large amount of these securities except at substantial concessions and that the large proportion of them have practically no public market whatever and no private market except at great sacrifices."

"Whilst it is not fair to gauge the comparative values of these two classes of securities by the present public market, or to take their paper losses in these abnormal times as a criterion of value, your Committee respectfully submits that under normal conditions a prime first mortgage security is readily salable at a smaller concession from the face of the debt than are good bonds."

"Any safe recognized security is liquid at a price. What these insurance officials mean when they talk about mortgage loans not being a liquid security as against other forms of security is that mortgages are not liquid at par in large amounts as against other securities at any price at which they may be sacrificed. That is all they can justly claim."

During the days of the so-called "16 to 1," or the "Free Silver" agitation, a large savings bank had municipal, state and government securities, and, when, of necessity, they wanted to realize "quickly," they found they could sell their mortgages in preference to any other form of securities they had, as there are always individuals, trust companies, savings banks, and estates of all kinds that can and will buy mortgages, when they would not buy some of the other so-called quick "listed" assets.

One of the striking features of this Lockwood Report is that the insurance companies **received** from **twenty** to **twenty-five** per cent **greater** returns on mortgage investments than on the stock and bond investments. While this Committee did not analyze the dividends paid by life insurance companies to their policy holders, the inference would be that if they received a larger return from mortgage investments than from other investments, it would naturally follow that a company with larger mortgage holdings could pay their policy holders larger dividends.

Before closing, I beg to say that if our realtors would like to read a really thrilling story, if they would get the Legislative Report, Document No. 60, of the year 1922, New York State, Intermediate Report of the Joint Legislative Committee on Housing, it would give them quite a thrill—not alone in the matter of financing, but in the matter of manipulation, syndicating, gentlemen's agreements, labor, and other details that this Committee uncovered and told in this report.

"HATS OFF"

In closing, I feel like asking our realtors to take off their hats to and congratulate the Life Insurance Companies that are loaning anywhere from **thirty-five** to **eighty per cent of** their holdings in real estate mortgages, which we think are the safest security, give a larger return, and are of great service in building up homes for the people from whom they get much of their money.

It may be that mortgage brokers can work up more business with some of these companies, especially those that have a very small per cent of their assets in—what we think is the safest and best security on earth—the Earth itself.

Very truly yours,

S. S. Thorpe

Chairman,

Insurance Company Loans Committee,
Mortgage and Finance Division,
National Association of Real Estate Boards.

Investment Figures for Years Ended December 31, 1921-1922
of Life Insurance Companies having $5,000,000 or More Assets

NAME OF COMPANY	Year	Total Admitted Assets	Admitted Assets Invested in Mortgages			Admitted Assets Invested in Stocks and Bonds		
			Amount	% of Assets Invested	Rate of Interest Earned	Amount	% of Assets Invested	Rate of Earnings
Aetna Life Insurance Co	1921	191,718,046	72,063,062	37.6	6.3	56,874,420	29.7	4.5
	1922	207,041,799	75,469,911	43.	4.5	65,134,917	37.1	4.4
American Central Life	1921	8,606,412	5,009,586	58.2	6.5	883,357	10.3	4.4
	1922	9,366,208	6,031,653	64.4	6.6	265,477	2.8	3.8
American Life	1921	6,368,739	4,039,142	63.4		17,621		
	1922	1,332,576	798,948	60.0	6.5	149,470	11.2	2.2
American National	1921	11,672,937	4,108,612	35.2	7.9	3,536,822	30.3	5.3
	1922	14,296,624	5,352,594	37.4	7.8	4,214,350	29.5	5.9
Atlantic Life	1921	8,769,814	5,568,805	63.5	6.2	266,062	3.	5.2
	1922	10,375,834	6,645,759	64.1	6.4	239,967	2.3	8.6
Baltimore Life	1921	6,256,742	867,500	13.9	6.	4,455,353	71.2	4.7
	1922	6,997,639	1,114,605	15.9	6.6	4,830,174	69.0	4.6
Bankers Life	1921	50,251,811	40,725,759	81.	5.8	3,556,563	7.1	4.4
	1922	56,634,293	46,653,732	82.4	6.0	2,519,020	4.4	3.8
Bankers of Nebraska	1921	20,162,065	15,337,894	76.1	5.5	1,689,367	8.4	4.7
	1922	21,878,190	16,513,568	75.4	5.7	1,621,926	7.4	4.7
Bankers Reserve Life	1921	11,754,269	1,129,200	9.6	5.	7,474,073	63.5	5.1
	1922	12,865,396	1,228,800	9.6	6.1	7,917,081	61.5	5.0
Berkshire Insurance Co	1921	30,351,611	8,432,400	27.8	5.5	14,727,000	48.5	4.7
	1922	32,105,870	9,957,058	31.1	5.9	14,696,474	45.8	4.5
California State Life	1921	5,086,052	3,466,523	68.1	7.2	16,681		1.9
	1922	5,937,660	3,420,614	57.6	6.7	116,018	2.0	5.4
Central Life U. S. of A	1921	11,997,486	9,062,127	75.5	6.0	84,457	0.7	3.
	1922	14,016,619	10,670,613	75.5	6.0	58,766	0.7	3.
Colonial Life	1921	5,868,377	3,626,592	61.8	5.9	1,593,378	27.1	4.8
	1922	6,799,471	4,936,396	72.6	6.0	1,272,765	18.7	4.4
Columbian National	1921	22,061,788	3,780,830	17.1	6.5	12,140,328	55.0	5.1
	1922	24,815,227	4,476,232	17.0	6.5	13,323,173	53.7	5.0
Connecticut General	1921	37,481,515	18,697,680	49.9	6.1	10,415,727	27.8	5.2
	1922	44,218,694	22,858,947	51.7	6.3	11,778,130	26.6	5.0
Connecticut Mutual Life	1921	96,204,771	38,489,354	40.0	5.6	38,411,662	40.0	4.6
	1922	103,261,903	35,657,300	34.5	6.0	47,048,103	45.6	4.5
Equitable Life of U. S.	1921	665,301,018	154,033,300	23.5	5.2	360,244,485	55.0	4.6
	1922	663,747,064	170,167,337	25.6	5.4	355,143,633	53.5	4.6
Equitable of Iowa	1921	39,234,839	28,822,580	73.5	5.7	2,712,974	7.0	5.0
	1922	44,995,738	34,512,967	76.7	5.9	1,322,579	2.9	4.7
Federal Life Insurance Company	1921	5,601,544	2,834,532	52.2	6.4	504,738	9.0	5.3
	1922	5,984,418	3,124,650	52.2	6.5	445,265	7.4	4.9
Fidelity Mutual	1921	47,510,589	17,908,071	37.7	6.1	16,387,401	34.5	5.8
	1922	51,439,244	19,655,387	38.2	6.2	18,131,497	35.2	5.1
Franklin Life	1921	13,263,529	7,544,686	56.9	5.8	1,084,205	8.2	4.5
	1922	14,622,735	8,599,686	58.8	6.0	1,047,465	7.2	4.3
Great Southern	1921	10,860,821	6,211,817	57.2	5.9	379,581	3.5	5.1
	1922	12,134,749	7,300,098	60.2	6.1			
Guardian Life of America	1921	41,152,050	19,333,462	47.	5.5	10,933,183	26.6	4.7
	1922	42,738,562	20,330,462	47.6	5.4	10,881,050	25.5	5.0
Home Life of New York	1921	43,222,328	8,230,745	19.	5.4	23,917,806	55.3	4.6
	1922	46,253,715	9,580,590	20.7	5.5	24,671,211	53.3	4.7

Investment Figures for Years Ended December 31, 1921-1922
of Life Insurance Companies having $5,000,000 or More Assets
(Continued)

NAME OF COMPANY	Year	Total Admitted Assets	Admitted Assets Invested in Mortgages			Admitted Assets Invested in Stocks and Bonds		
			Amount	% of Assets Invested	Rate of Interest Earned	Amount	% of Assets Invested	Rate of Earnings
Illinois Life	1921	19,413,847	5,589,750	28.8	5.6	6,849,097	35.3	5.1
	1922	21,441,658	7,081,000	33.0	6.5	6,397,665	29.8	5.2
International Life	1921	17,819,465	8,664,960	48.6	6.9	593,419	3.3	4.7
	1922	20,703,425	8,829,754	42.6	6.8	2,157,666	10.4	3.7
Inter Southern Life	1921	6,873,447	1,330,866	19.4	5.4	418,236	6.1	5.
	1922	7,371,274	1,269,429	17.2	6.1	327,685	4.4	4.3
Jefferson Standard	1921	17,119,541	10,016,992	58.5	6.1	676,158	3.9	4.3
	1922	19,700,868	10,684,341	54.2	6.5	987,209	5.0	4.7
John Hancock Mutual	1921	239,693,371	125,763,854	52.5	6.2	72,374,131	30.2	4.3
	1922	268,075,903	139,191,120	51.9	6.2	80,721,058	30.1	4.4
Kansas City Life	1921	22,010,867	14,031,498	63.7	6.4	1,631,215	7.4	4.6
	1922	25,928,363	18,162,184	70.0	6.5	1,698,216	2.7	4.0
Life Insurance Co. of Va.	1921	28,308,449	22,073,672	78.6	6.5	2,834,256	10.	4.9
	1922	32,633,933	25,962,366	79.5	6.6	2,343,482	7.2	4.8
Lincoln National	1921	12,804,079	9,123,379	71.2	6.4	238,461	1.9	3.5
	1922	16,536,772	11,064,546	66.9	6.5	231,934	1.4	4.5
Manhattan Life Insurance	1921	19,818,205	6,586,786	33.2	5.8	3,704,465	18.7	4.2
	1922	19,706,675	6,808,768	34.6	5.7	3,462,227	17.6	4.3
Massachusetts Mutual	1921	147,090,913	50,412,804	34.3	5.7	62,497,619	42.5	4.7
	1922	163,175,507	55,155,910	33.8	5.9	70,292,078	43.1	4.5
Merchants Life	1921	5,148,144	3,766,669	73.2	8.6	440,848	8.6	4.3
	1922	5,809,432	4,527,471	77.9	5.9	291,624	5.0	4.9
Metropolitan Life	1921	1,115,583,025	454,517,999	40.7	5.6	502,333,461	45.	5.
	1922	1,259,850,326	510,177,265	40.5	5.8	568,191,980	45.1	4.7
Michigan Mutual Life	1921	15,944,131	11,982,967	74.9	5.5	362,512	2.3	4.1
	1922	16,793,090	12,560,629	74.8	5.7	363,512	2.2	4.2
Midland Mutual	1921	5,821,498	4,354,916	74.8	6.2	527,775	9.1	4.6
	1922	6,985,753	5,405,021	78.7	6.6	364,744	5.2	3.9
Minnesota Mutual	1921	9,243,506	5,292,757	57.2	6.	1,251,853	13.5	5.4
	1922	10,376,022	5,683,562	54.8	6.4	1,576,273	15.2	5.3
Missouri State Life	1921	33,844,503	22,306,753	65.9	7.4	191,857	.....	3.2
	1922	39,642,846	26,608,811	67.1	7.6	139,746	0.4	6.0
Mutual Benefit	1921	306,440,102	123,735,785	40.4	5.4	103,402,612	33.7	4.2
	1922	334,794,282	128,896,829	38.5	5.7	119,892,914	35.8	4.4
Mutual Life of N. Y.	1921	677,505,499	111,760,866	16.5	5.4	435,295,466	64.2	4.5
	1922	691,125,635	117,448,926	17.0	5.6	440,364,294	63.8	4.5
Mutual Trust Life	1921	7,512,613	4,707,063	62.6	6.1	1,282,502	17.1	5
	1922	9,155,553	5,666,869	61.9	5.1	1,495,863	16.3	4.5
National Life & Accident	1921	7,157,005	2,383,943	33.3	.....	3,809,550	53.2	.....
	1922	8,578,945	3,142,176	36.6	.....	4,341,385	50.6	.....
National Life	1921	79,756,969	35,567,514	44.6	5.9	26,321,717	33.0	4.8
	1922	84,503,024	35,850,857	42.4	5.9	29,543,410	25.0	4.6
National Life of U. S. of A.	1921	21,468,852	8,159,027	38.	6.1	6,705,143	31.2	3.4
	1922	23,224,800	9,188,132	39.6	5.9	7,007,753	30.2	5.6
New England Mutual	1921	116,208,826	22,568,183	19.4	5.6	65,146,662	56.0	4.8
	1922	127,966,788	24,106,551	18.8	5.6	73,721,934	57.6	4.8
New York Life	1921	952,632,139	183,722,806	19.2	5.5	554,918,324	58.2	5.
	1922	988,552,211	200,663,278	20.3	5.8	573,997,426	58.1	4.6

Investment Figures for Years Ended December 31, 1921-1922
of Life Insurance Companies having $5,000,000 or More Assets
(Continued)

NAME OF COMPANY	Year	Total Admitted Assets	Admitted Assets Invested in Mortgages			Admitted Assets Invested in Stocks and Bonds		
			Amount	% of Assets Invested	Rate of Interest Earned	Amount	% of Assets Invested	Rate of Earnings
North American Life	1921	6,755,155	4,509,217	66.7	6.2	370,194	5.5	6.0
	1922	7,634,852	5,151,847	67.5	6.3	357,419	4.7	5.8
Northwestern Mutual	1921	507,085,694	224,503,562	44.3	5.4	181,565,851	35.8	4.4
	1922	546,296,308	232,704,690	42.6	5.8	204,012,610	37.3	4.5
Northwestern National	1921	12,450,925	8,211,902	65.9	6.1	857,107	6.9	4.6
	1922	14,503,961	9,268,572	63.9	6.3	1,101,407	7.6	4.1
Pacific Mutual	1921	65,199,251	24,019,443	36.8	6.5	8,810,968	13.5	5.4
	1922	73,356,818	29,006,009	42.8	6.5	11,214,131	16.6	5.3
Pan American	1921	10,000,680	5,835,968	58.3	6.6	1,792,849	17.9	4.5
	1922	11,171,261	5,160,830	55.1	6.8	2,284,697	20.4	4.8
Penn Mutual	1921	233,985,548	89,193,597	38.1	5.9	86,217,990	36.8	4.9
	1922	253,715,327	100,139,276	39.5	6.0	91,675,491	36.1	5.0
Peoria Life	1921	5,086,670	1,362,445	26.8	6.2			
	1922	6,307,000	2,243,805	35.6	6.1			
Philadelphia Life	1921	8,155,801	2,571,850	31.5	6.	2,885,372	35.3	5.1
	1922	8,863,197	2,904,550	32.8	5.8	3,091,230	34.8	5.5
Phoenix Life (Mutual)	1921	62,687,601	34,075,893	54.3	6.0	13,236,873	21.1	4.5
	1922	68,497,370	36,777,284	53.7	5.8	15,308,344	22.3	4.3
Postal Life	1921	10,272,978	3,178,440	30.9	3.8	2,074,864	20.2	4.3
	1922	10,191,288	3,211,102	31.5	4.0	1,967,946	19.3	4.0
Provident Life & Trust	1921	128,399,518	22,042,101	17.2	5.6	80,400,306	62.6	4.8
	1922	133,629,940	26,324,579	19.7	5.8	82,038,990	61.4	4.5
Prudential Insurance Company	1921	789,508,224	258,732,151	32.8	5.8	421,462,309	53.4	4.6
	1922	906,397,225	325,272,376	35.9	6.0	459,832,515	50.7	4.8
Reliance Life	1921	17,949,622	1,220,747	6.8	6.4	11,253,307	62.7	5.1
	1922	21,751,915	1,337,838	6.2	6.6	14,093,863	64.8	5.1
Reserve Loan Life	1921	5,752,670	3,895,889	67.7	6.3	218,567	3.8	4.9
	1922	6,278,114	4,221,446	67.2	6.5	212,497	3.4	4.4
Royal Union Mutual	1921	10,945,271	8,359,302	76.3	6.0			
	1922	12,087,089	8,454,052	69.9	6.4			
Security Mutual	1921	12,156,126	4,213,542	34.6	5.8	4,047,866	33.3	4.9
	1922	12,801,718	4,436,913	34.7	5.9	4,105,859	32.1	4.9
Southern Life & Trust	1921	5,763,693	2,322,414	40.3	5.9	379,351	6.6	5.8
	1922	6,346,106	2,568,969	40.5	5.9	379,351	6.0	6.2
Southland Life	1921	6,249,105	2,523,475	40.4	7.7	73,883	1.2	2.3
	1922	7,307,375	3,092,818	42.3	6.8	9,108		2.6
Southwestern Life	1921	10,315,581	5,644,738	54.7	7.5	1,518		6.3
	1922	12,119,800	6,610,315	54.5	7.5			
State Life (Ind.)	1921	26,221,556	12,448,069	47.5	6.2	4,730,449	18.0	5.4
	1922	28,658,563	14,104,683	49.4	6.3	5,942,044	20.8	4.2
State Mutual (Mass.)	1921	72,219,112	22,304,150	30.9	5.8	33,758,671	46.7	4.8
	1922	78,650,283	24,272,800	30.9	6.0	36,590,787	46.5	4.8
Travelers Insurance Co.	1921	219,005,682	53,761,919	32.9	5.9	68,075,863	41.7	4.8
	1922	250,287,552	60,450,460	24.2	6.0	84,086,413	33.6	4.5
Union Central	1921	161,681,751	112,469,525	69.6	6.4	7,289,038	4.5	4.3
	1922	174,938,023	121,130,911	69.2	6.5	6,467,185	3 7	4.2
Union Mutual	1921	19,020,699	705,886	3.7	5.2	13,907,529	73.1	4.5
	1922	19,247,217	713,183	3.7	5.3	13,990,651	72.7	4.4

Investment Figures for Years Ended December 31, 1921-1922
of Life Insurance Companies having $5,000,000 or More Assets
(Continued)

NAME OF COMPANY	Year	Total Admitted Assets	Admitted Assets Invested in Mortgages			Admitted Assets Invested in Stocks and Bonds		
			Amount	% of Assets Invested	Rate of Interest Earned	Amount	% of Assets Invested	Rate of Earnings
United States Life	1921	6,225,074	1,831,100	29.4	5.5	2,910,288	46.7	4.4
	1922	5,917,964	1,883,725	31.8	5.4	2,986,556	50.5	4.3
Volunteer State Life	1921	6,218,548	2,202,838	35.4	7.9	1,259,033	20.2	5.8
	1922	7,166,407	2,962,046	37.6	3.0	1,326,073	18.5	5.8
West Coast Life	1921	6,795,259	935,755	13.8	7.7	3,192,504	47.0	6.5
	1922	7,796,800	1,384,834	17.8	7.8	3,170,967	40.7	6.6
Western and Southern	1921	28,295,931	19,277,765	68.1	6.2	6,947,761	24.5	4.5
	1922	34,017,031	24,511,356	72.1	6.4	6,984,177	20.5	4.6
Western States	1921	6,221,836	1,964,686	31.6	8.3	2,299,543	36.9	5.8
	1922	7,501,410	2,419,474	32.3	7.7	2,807,089	37.4	5.4
Western Union	1921	6,076,219	2,283,415	37.6	7.2	1,854,729	30.5	4.8
	1922	6,959,885	2,321,588	33.4	6.9	2,377,303	34.2	2.6

MORTGAGES AS LIQUID SECURITY

Extract from the Intermediate Report of the Joint Legislative Committee on Housing, State of New York, 1922, Samuel Untermeyer, Esq., Counsel

THE large part of the revenues of the fire insurance companies and considerable of the business of the others comes from premiums on insurance connected with improved real property. Some of them own the buildings that cost millions of dollars of which only a part is occupied by them. That form of real estate, they consider sufficiently safe and liquid, but when it comes to investing the premiums that they make out of real estate in gilt-edged first mortgages on improved property, the cry goes up that theirs is a hazardous business in which losses may have to be suddenly met and that this form of security is not sufficiently "liquid" for their purposes. And this in spite of the fact that the savings banks of the State have an average of over 49 per cent of their total deposits invested in this way and that some of the largest and soundest of them have over 60 per cent thus invested.

A savings bank may be called upon to pay out all of its deposits on sixty days' notice. A fire insurance company, on the other hand, has its risks widely scattered, besides which its policies allow it sixty days after proofs of loss have been filed in which to pay a loss, so that the reasons for its assets being what it calls "liquid" are less important than those that apply to a savings bank.

The fact is that a well-secured mortgage loan on improved real property in a great city, which represents not to exceed two-thirds of the value of that property, besides being a safer and better paying security is more liquid than any form of security other than a government, State or municipal bond. An examination of the security holdings of the stocks, bonds and notes held by the great financial companies discloses that whilst a substantial proportion of them are listed on the Exchanges and have a public market, in most cases it is a limited market that would not absorb a large amount of these securities except at substantial concessions and that the large proportion of them have practically no public market whatever and no private market except at great sacrifices.

Whilst it is not fair to gauge the comparative values of these two classes of securities by the present public market, or to take their paper losses in these abnormal times as a criterion of value, your Committee respectfully submits that **under normal conditions a prime first mortgage security is readily salable at a smaller concession from the face of the debt than are good bonds.**

Any safe, recognized security is liquid at a price. What these insurance officials mean when they talk about mortgage loans not being a liquid security as against other forms of security is that mortgages are not liquid **at par in large amounts** as against other securities **at any price** at which they may be sacrificed. That is all they can justly claim.

AMORTIZED LOANS

STANLEY H. TREZEVANT, Chairman
Manager, Real Estate Loan Department
North Memphis Savings Bank, Memphis, Tennessee

THE accepted definition of the term "amortized loan," as recognized by those dealing in this subject, seems to be understood as limited to that class of loans which require a fixed payment covering both principal and interest and reducing the amount of the loan by periodical payments covering the entire term of the loan. In a looser sense, some of the members of the committee have applied the term to all classes of loan where the principal is periodically reduced during the continuance of the loan, including in this loose use of the term, both cases where the loan is represented by notes bearing their own interest and cases where fixed installments reducing the loan are required, in addition to the payment of interest at stated periods.

Replies to Questionnaire

In soliciting information for the making of this report, we sent out a questionnaire, in which the following replies were received:

Mr. W. D. Clark, Royal Oak, Michigan, expressed his views as being unfavorable to the plan of amortized loans, but he says:

"Practically all mortgage loans which we are now able to obtain are amortized loans, we having access to Prudential and Metropolitan Insurance Company money. Our two banks of late have required a renewed past due mortgage loan to be paid off on the amortized plan."

Mr. Stanley S. Staring, president of the Staring Company, Minneapolis, in addition to answering the questionnaire, advises your Chairman, in a letter accompanying same: "It has been my experience that the real service the public needs, particularly in residence loans, is more than the ordinary first mortgage. Therefore, we have endeavored to keep our first mortgages small enough not to require payments. We have done this for the reason that we have been obliged to take second mortgages, or furnish contracts for deeds for amounts close to 75% or 80% of the cost of the property. Our amortized mortgages have been of a larger type where loans of $7,500.00 to $10,000.00 have been placed on residences or duplexes."

In his answer to the questionnaire, Mr. Staring gives his opinion of the best practice in connection with amortized loans, the handling of such loans on amounts from $7,500 up, provided the payments are in round numbers, rather than in odd amounts, where an exact three or five per cent per annum is required.

Against Monthly Payments

On the subject of what practices should be discontinued, he mentioned the monthly payment first mortgage, which he says can only serve a very few to advantage, unless a mortgagee is willing to lend a much larger per cent than at present. His suggestions for bettering service are: (1) To endeavor to furnish the kind of service desired in particular localities, (2) to furnish interested realtors detailed reports, (3) for office methods to be standardized so far as possible.

Makes "Straight" 3-Year Mortgages

Mr. John E. Parsons, Maumee Valley Mortgage Company, Toledo, says that he is very much interested in the mortgage loan business, and that as his interest is primarily in the taking of mortgages to sell them at a profit, he prefers that first mortgages be straight mortgages. He says: "Consequently, we make our first mortgages straight mortgages for three years because the banks and insurance companies which are our principal customers prefer them to monthly payment mortgages. That plan leaves the earnings of the mortgagor to be applied on the second mortgage, if there is one. If there is no second mortgage, I am heartily in favor of having monthly or quarterly payments made on the first mortgage, because I believe a straight first mortgage which does not require the mortgagor to reduce it periodically is a bad plan in eighty per cent of the cases."

In his answers to the questionnaire, Mr. Parsons suggests the monthly or quarterly payment mortgage as the best type for a bank or savings association, both for the mortgagor and for the bank, because it compels the mortgagor to reduce his indebtedness, and for the bank because it brings in the money for reinvestment. He says for insurance companies, however, that are not on the ground, the straight mortgage with interest payable semi-annually seems to be the best. As to suggestions for improvement in present methods, his recommendation is summed up in the word "education."

Mr. John J. Hurst, president Citico Realty Company, Baltimore, writes that his experience is limited to the handling of second mortgages, first mortgages ahead of same being in general handled through building and loan associations which do require a fixed weekly payment for the retiring of same.

Invaluable Information from Walter Stabler

Mr. Walter Stabler, Comptroller of the Metropolitan Life Insurance Company of New York City, writes a full and complete answer to each of the questions asked in the questionnaire sent out, and gives some very valuable and instructive information based on the extensive experiences of his insurance company. Some of the valuable information from his letter is as follows:

"First. All of the loans made by this Company, with a few exceptions, are not Amortized Loans, but Installment Loans. In the past three years, up to January 1, 1923, we have made housing loans of upwards of $140,000,000, all of which require installment payments of 2½% to 3% of the principal semi-annually. On all other loans, whether large or small, running up even into the millions, we require installment payments, with very few exceptions; those exceptions being where the loan runs for not more than five years and where the security is unusually good. While we have no definite figures, as to what proportion of our loans are now running with installment payments, I should say that fully three quarters of the total amount of our mortgage investments in cities are either on the installment or amortized basis. The amount on our books on March 31, 1923, was $415,133,603. We have some amortized loans, that is to say, loans where there are fixed payments every six months for a period which entirely pays the principal and interest at the end of the period and all such loans are on small dwellings, some in Akron, Ohio, and some in the Boroughs of Queens and Brooklyn of this City, but just at the moment, I have not the exact figures."

"Second: 'Outline my opinion of the best present practice in connection with the above subject.' I think I have answered this, by the above statement, in answering question one. I think the Installment or Amortized Loan should always be made. It is an encouragement for thrift on the part of the owners of the property, whether large or small, and is constantly making the loan safer for the investor. We started this plan about ten years ago and it has resulted in saving us from any loss so far as I can recall and I do not believe it has been necessary to foreclose any mortgage where the installments have been paid for a few years."

Conclusions

The conclusions which your Chairman draws from the foregoing data are that **the principle of amortized loans is sound,** and should be followed wherever practicable in the interest of safety and advantage for both the borrower and the lender.

As to the particular advantages or disadvantages of amortized loans, strictly speaking, as distinguished from installment loans or other loans requiring a periodic reduction of the principal, your Chairman has not had sufficient information to give any report of value to the Association, but on the broad proposition of requiring periodic reductions of the principal, the conclusion is inescapable that the safety and protection of the borrower, and his security, as well as the advantage of the lender, is subserved in such a large percentage of cases, that the few cases where an advantage lies in favor of straight loans for a definite period should be considered as exceptions to, rather than arguments against, the general rule.

Even those who favor the straight loan qualify this by arguing that the second mortgage loan should be retired in periodic payments. If the principle is sound for second mortgage loans, it is equally sound for first mortgage loans, and in any event, such payment of second mortgage loans increases the security for the second mortgage and makes it more certain that the first mortgage will be paid, which is the essential argument in favor of the amortized plan of lending money in any case.

Metropolitan's Remarkable Record

If the Metropolitan Life Insurance Company has, in ten years, after adopting the amortized and installment principle of loans, loaned hundreds of millions of dollars without a single loss and with no case of foreclosure where installment payments had been made for several years, other lenders can well look to this record and profit by it, and in the opinion of your Chairman, this statement of facts, taken from the experience of one company, is a full and complete brief and argument in support of the principle of amortized loans.

HOUSING LOANS

FORREST ADAIR, JR., Chairman
Vice-President, Adair Realty and Trust Company, Atlanta

INFORMATION as to conditions in the various cities and the methods used in the same, has been furnished me by mortgage institutions and realtors whose business is to loan money on new and old houses and I am deeply grateful and wish to thank them for their kindness in assisting me in compiling this report.

A survey of the present housing condition in the United States indicates that, with a few exceptions, the shortage is in the industrial sections of our country. Out of seventy cities heard from, only twenty-eight report a shortage, which shows that wonderful work has been done by someone or some groups, towards relieving the housing situation which existed a few years ago.

Financing a Home

There are many methods of financing a new home. As a general proposition the loan is made for five years, although some institutions will loan for ten, twelve and as long as fifteen years. They generally loan approximately fifty per cent of the cost of the building and the value of the land. To illustrate—if the building costs $6,000 and the lot $2,000, the mortgage would be $4,000. Some of these loans are straight five-year loans, some require semi-annual or annual curtailment and some require that they be paid monthly. As a general proposition those that require a monthly payment will loan 65 per cent and in some instances more, but as a general proposition it is difficult to borrow more than 50 per cent on a home—which, in a great many instances makes it necessary for a second mortgage to be placed. If the place is sold, with a 50 per cent first mortgage, it is sometimes necessary that the seller—whether he be a contractor, a professional builder or individual—dispose of the second mortgage notes received in payment, and as a general proposition these notes are disposed of at a discount, which, in many instances, wipes out a large part of the profit of the builder of the house.

The problem today is, how the man who desires to select a location and build his home, can finance when he has, in cash on hand, only twenty or twenty-five per cent of the total cost. He can buy a home already built in a subdivision or probably in some section where he does not desire to reside—but, as we are a home-owning nation, and there has been much to say about owning your own home, there should be some method of financing for the man who desires to select his location and build his own home, with a capital of 25 per cent of the total cost.

75% Loan Suggested

It has been suggested that it would be safe to loan 75 per cent. Several mortgage loan institutions and realtors have stated that their experience in loaning 75 per cent, or in selling homes with no loans on them, that a 25 per cent cash payment and the balance payable monthly, has been practically without a loss. They suggest a 75 per cent loan payable monthly—144 months. They suggest that the borrower be required to pay from seven to ten dollars a thousand, per month. If you will calculate rapidly you will see that this is within reason. Interest is not added in, but each note carries its own interest. They state that the life of these loans is about six years, and at that time the borrower re-finances with a permanent loan and the original lender is repaid. It would take considerable capital to organize and handle loans in this manner. Fundamentally, it might be wrong to loan 75 per cent, but those who have been doing it state that where borrowers are carefully selected, they have had practically no losses.

Building and Loan Companies operate in a similar manner, but there are other things that a stockholder in a Building and Loan Association has to do before he is allowed to borrow. Building and Loan Associations have done much towards relieving the housing situation. As a general proposition their capital is limited and it has been suggested that legislation be passed in the different states allowing Building and Loan Associations to make second mortgages. This would allow an insurance company to make fifty per cent first mortgage and the Building and Loan Association take the monthly second mortgage for the twenty to thirty per cent—assuming always that the borrower will have around 25 per cent before he is qualified to make a loan.

Another Method

Another method of financing the home owner is through the owners of large residential subdivisions. The owners of these subdivisions state that they increase their sales and have more houses built by allowing the home owner, who has 25 per cent, to finance himself as follows: The home owner buys the lot on contract and arranges a 50 per cent first mortgage. The owner

of the subdivision takes 25 per cent in second mortgage, which generally is the cost of the lot—and the borrower or purchaser, with his other 25 per cent in cash, is able to own his home and pay for it with monthly payments on the second mortgage and the annual interest, with a slight reduction, on the first mortgage. The owners of some subdivisions have done much towards relieving the housing shortage, when they financed the home owner in this way.

Insurance Company Relieves Shortage

I have endeavored to get from several life insurance companies, who make loans on residences, information as to how and what they have been doing towards relieving the housing shortage. I regret to say that only a few of these companies would give me this information. One big company, however, at the psychological moment, changed its policy and advertised to the world that they had millions to loan on new houses. Since that time they have loaned $129,634,842, accommodating 36,905 families, and are continuing to loan as fast as there is a demand, and I can say from personal experience that they are responsible—either directly or indirectly—for the relief of the housing situation. When I say directly or indirectly, it is a well known fact that in certain sections of this country and in certain cities of small population, no insurance company would dare enter, until this big company decided to go in, pave the way and show to the others that loaning on houses was a satisfactory and profitable business. After they paved the way, other companies followed suit.

There is, however, another big company that has done much towards relieving the housing shortage. During the period from May 1, 1922, through April 30, 1923, this company made 9,292 dwelling loans, amounting to $35,428,141.74, accommodating 10,531 families and 567 apartment loans amounting to $16,652,700, accommodating 7,190 families. It is easy to understand that with other life insurance companies and financial institutions following suit, practically all cities in which there is now a shortage, will be normal, if the high cost of material and building will subside.

Give Prompt Service

Much has been said about personal service to the borrower, that is, inability to tell a man quickly whether or not a loan will be made, and after he has been told that the loan will be accepted, arrange for a quick title examination and fast closing. Borrowers are demanding good service—they are entitled to it and the house that gives it is going to get the volume of business.

Fees should not be excessive and if attorneys' fees and title insurance are too high, steps should be taken to reduce this cost. In other words, make the cost to the borrower as reasonable as possible.

COMMISSION RATES

W. W. HAZZARD, Chairman
President, Hazzard-Clark Mortgage Company, Birmingham, Alabama

AT present there is no universal commission charge made by the numerous brokers negotiating mortgage loans in the city of Birmingham. We are now in the process of organizing a Mortgage and Finance Division of the Local Real Estate Board which will have the stabilizing of commissions as part of its work and endeavor.

Up to 5% Charged

Among the smaller brokers it has been customary to charge as high as 5% for a loan of three or five year periods, irrespective of rate or amount of amortization. The larger, and we might say, the more reputable brokers vary to some extent their commissions according to rate of interest the loan is to bear, as well as the time the loan is to run, and also as to the amount of the loan. Several have a flat charge of 4% commission up to $10,000.00, 3% commission from $10,000.00 to $20,000.00 and 2½% commission from $20,000.00 up, on all loans made for periods of 3, 5, 10, and 15 years.

These commissions, as a general rule, include the payment by the broker of such expenses as attorney's fees, the State Privilege Tax, the Recording Fee, and the Federal Stamp Tax, and also includes the fee for the preparing of the papers. The only item that the borrower pays is for the original extension of his abstract. The renewal charges are usually 2% of the amount renewed at the time of maturity of existing mortgage and out of this 2% the broker pays all expenses in connection with the renewal.

We have several brokers here who are making charges of only 2½% of the amount of the loan, irrespective of the amount borrowed, but these brokers require that the borrower pay all expenses in connection with the closing of the loan except the State Privilege Tax .

On Farm Loans

In the case of farm loans throughout the state, they are seldom made for periods less than five years and the commission charge is 5% for 5 years, 6% for six year loans, 7% for 7 year loans, 8% for 8 year loans, or 8% for 9 or 10 year loans. The borrower is required to pay the abstract expense, Recording Fee, and Federal Stamp Tax, the broker paying, as the usual thing, the attorney's fee, State Privilege Tax, and the cost of preparing the papers.

Working for Uniform Rates

You can see from the above that there is absolutely no uniformity in commission charges by the various brokers in this city and this perhaps is the principal reason that we would like to see the Mortgage and Finance Division of our Local Board organized. It is the general concensus of opinion that commission rates would be less on three year loans than five, and less on five year loans than on ten year or fifteen year loans. Our Mortgage and Finance Division is only in its initial stage and no definite plan has been worked out by the present committee who have the commission element in charge, so it is impossible for me to give any idea at this time of the agreement that will finally be reached. I will, however, report further when our division has been thoroughly organized, and has really started to function.

Mortgage and Finance Division
Bulletin No. 2—December 1923
Insert in Book to follow Page 56

LOANS ON CITY PROPERTY

Annual Report of the Committee on Real Estate Securities, Investment Bankers Association of America, 1923.

MAJORITY Report at 1923 Convention, by Frank J. Parsons, Charles H. Deppe, William L. Davis and Morris F. Fox; concurred in by Townley Culbertson, Henry T. Ferriss and Walter A. Graff:—

(a) Evaluations:

1. By Whom Made—

Two methods are now in vogue, either of which may be justified; first, appraisement by officers of the company making the loan; second, appraisement by independent local appraisers. In theory, the use of independent appraisers is preferable, but in practice this is the exception rather than the rule. In recent years independent appraisers are often used, due, no doubt, to the fact that firms without any personal experience in real estate matters have begun to handle real estate loans and naturally seek the aid of so-called "Appraisal Experts." For the concern in this condition, use of independent appraisers is recommended, provided such appraisers be advised that they are expected to give a sound, conservative valuation and not an inflated one.

Concerns having long years of continuous experience in handling real estate loans, either in one city or in many cities, probably would not be satisfied with local appraisers, but would want their own appraisers who will follow their own standards, whether conservative or otherwise. Houses intending to stand back of their loans will want their own appraisals based on personal inspection and personal familiarity with real estate and values. However, where the issuing house has a financial interest in the equity in the property, an independent appraisal might be very desirable.

While there may be good arguments to the contrary, it is considered the better practice for the issuing house to include in its offering circular a full statement of values showing land, buildings and equipment, each separately, and stating whether the appraisal was made by an officer of the issuing house or by an independent appraiser, and in the latter case giving the name, or names. This gives the prospective investor an opportunity to exercise his independent judgment instead of buying solely upon his faith in the issuing house. It also serves to give a bank officer some yardstick by which to measure the value of the bonds for collateral purposes.

2. Elements of Value—

It is assumed that loans on vacant property will not be offered to investors and that consideration is only to be given to determining the sound value of real estate which has been, or is in process of being, improved. The following considerations may be of use to dealers in real estate securities:

In the case of an improved property that has established a history of good earning power, probably the soundest basis for ascertaining true value is to apply the principle of a bona fide sale of that property, or of nearby and similar property, to a purchaser who wishes to buy but does not have to buy, from a seller who wishes to sell but does not have to sell. Auction sales in periods of stress and all sales to public service corporations and municipalities do not appear as sound criteria of going value or bases for loans, but may be accepted as the point above which mortgage loans may not be safely made.

If the improvement is new or just under construction, conservative practice would suggest that the land be valued at cost and not at a figure in excess of a price arrived at by the method just mentioned above, that the building be valued at actual cost or at sound depreciated replacement value, whichever is less—care being exercised to include in such valuations only reasonable, normal percentages to cover such items as contractor's profit, architect's fees, interest during construction, cost of financing, etc.

While, in the final analysis, the desirability of a piece of improved real estate, both to its owner and as a basis for the security of a mortgage bond issue, depends upon its earning power, it is very strongly felt that a capitalization of superior earning power, leading to a valuation in excess of normal values arrived at by the methods suggested above, may be a sound criterion for resale value of the property or for the issuance of common stock, but, if used as a basis for mortgage bond issues, is quite likely to lead to excessive loans, with consequent disaster to the investor when the law of supply and demand has operated for a sufficient length of time to bring the requirements for new buildings and the rentals thereon down to something like a normal level. To the extent that net income is used as a factor in arriving at a valuation, it should be averaged over a period of years and determined by proper accounting methods, which should contemplate deducting from the gross return all operating expenses including taxes, insurance, repairs, a reasonable allowance for average vacancies, and an adequate amount for depreciation and obsolescence; and great care must be exercised to eliminate abnormal rents, due to unusual conditions which are not apt to be permanent.

In measuring the **desirability** of a loan, full consideration should be given to the following:

As affecting the land value:

Special or speculative features, such as location, grade, depth, shape, special restrictions, street improvements, neighborhood, trends of city growth, adequateness of the improvement and desirability of the land for the particular structure intended to be, or already, erected.

As affecting the value of the improvement:

Cost, age, depreciation and adequateness of the improvement for the purpose intended.

The soundest test of permanence of value in a building is its standard character and suitability to the requirements of many concerns. Buildings erected in periods of low cost sometimes increase in value with increasing costs, but if erected when costs are high, such costs must be substantially discounted for future safety. Special utilization, or buildings in any sense misplaced, must be closely scrutinized. An improvement, therefore, should be adequate to the particular plot of land, reflecting its highest utility, and should be managed in such a way as to obtain the best income possible. An improvement may be considered adequate when the public demand for the character of the improvement is permanent over the physical life of the improvement and when the economic development is as high as modern art, science and engineering, based upon practical experience, can make it, bearing in mind (in the case of office buildings, at least), that 27 years marks the average useful and profitable life of the improvement. (According to survey, by National Association of Building Owners and Managers covering many buildings in a large number of principal cities, gross income is at this point overtaken by operating expenses, taxes, repairs and obsolescence).

(b) Comparative Level of Building Costs:

Much has been said concerning the present high level of building costs. Your Committee is not attempting to prophesy whether they will remain where they are, advance or recede; nor does it predict the duration of the present period of building activity. There are, however, unmistakable signs that many cities now have no housing shortage and that others have overbuilt. It is thought, therefore, that it is time to utter a word of caution to those who have not been in the real estate securities business long enough to have lived through periods of over-expansion in this field. In the following paragraphs are figures which are believed significant. In the appendix will be found additional data and charts.

Cost of building materials and labor based in New York City market: Taking the costs in 1900 as 100%, costs have risen as follows:

Materials:

1914	148%
1921	305%
1922	320%
1923	335%

Labor:

1914	125%
1921	245%
1922	245%
1923	298%

One of the best of the index numbers is that developed by the Aberthaw Co. of Boston. The basic figure in this case is the actual cost of constructing a seven-story reinforced concrete factory building, erected under almost ideal conditions by the Aberthaw Co. in 1914. Estimates are made of the cost of putting up the same building if construction were begun at later times, and the estimates are then expressed as a percentage of the actual cost in 1914. Manufacturer's profits are not included.

Labor costs take into account labor efficiency. Material costs are the costs at which the materials could actually be secured. The table follows:

	1920	1921	1922	1923
January 1	190%	241%	151½%	
February 1		220	151½	196½%
March 1		197	151½	
April 1		186	151½	
May 1		175	157	
June 1		172	169	
July 1	265	167	171	
August 1		161	174	
September 1		160	190	
October 1		157	192	
November 1		154	192	
December 1		153	192	

The table shows that on February 1st of this year the cost of building a reinforced concrete factory building was 196½%, or nearly double the 1914 cost. The peak in building costs was reached in July, 1920, when costs were 265% as compared to the 1914 level. In the succeeding decline, the low point was reached in the first four months of 1922 when the index stood at 151½%—51½% above 1914 and 113½% below the peak. Within the past year, the increase in cost according to this index has been no less than 30%.

In 1914, direct labor was responsible for 33% of the total cost of the structure according to the Aberthaw figures. By the middle of 1921 this proportion had increased to 35-40%. This figure is probably a correct reflection of conditions today.

(c) Ability to Pay Rent:

1. Living Quarters—

Your Committee does not consider itself a body of economic experts, but its researches indicate that the subject of what

percentage of a man's income is a proper amount to be used as rent for the average family has had the study of economists for a good many years, and the generally accepted conclusion seems to be that the average and proper amount of rent to be paid by the average salaried man should not exceed 25% of his total income. This percentage is obviously subject to revision downward for laboring people and to revision upward for people with very large incomes. Inasmuch as the stability of the income of residence buildings, such as apartment houses, depends upon the comfortable and willing ability of tenants to pay, members are urged when considering loans upon this class of properties to give careful attention to this point.

2. Business Quarters—

There is a tendency today to base the amount of rent to be paid by retail merchants upon a certain percentage of their gross sales. The Committee's research has developed the following tentative figures, based upon actual survey, which may be useful to the members as a guide in estimating rents on commercial buildings under average conditions:

	% of Gross Sales
Rent of Automobile Agencies	2%
Automobile Accessories	10%
Cigars	7% to 8%
Credit Clothing Stores	8%
Dept. Stores	2½% to 8%*
Drugs	8% to 10%
Men's Wear	5% to 6%
Millinery	10% to 12%
Restaurant	10% to 12%
Shoes	8%
Waists	10%
Women's Wear	10%
5 and 10c Stores	5% to 6%
Jewelry	8%
Candy	7%

*Depending on number of floors.

3. Vacancies—

Insufficient data was available upon which to base very definite conclusions. It is believed that in first-class standard office buildings, vacancies will run from three to ten per cent over a ten-year period (averaging about six per cent) and from ten to fifteen per cent in first-class apartment houses over the same period. Deduction from estimated earnings should be made accordingly. In periods of extreme depression, or usually following such periods, vacancies may for a time run as high as fifty per cent in the poorly located or otherwise inefficient buildings. In such times the efficient buildings always gain heavily at the expense of the inefficient buildings. There will, of course, be correspondingly active periods in which vacancies will be negligible or non-existent. In many instances, in addition to vacancies there will be a lowering of rentals, which will affect net revenue even more than gross revenue, on account of the fairly fixed line of operating expenses.

(d) Rental Returns:

1. Apartment Houses—

The necessities of war developed increased efficiency in the design and construction of apartment houses, resulting in a greater number of units at lower cost. Small units known as the three and five room efficiency type met the demand. The yield on this type of investment ran as high as 25%. An average of 15% would probably be correct. The opinion is held by some that 10% would be the normal level. For less efficient types of buildings the average percentage is obviously lower. Consideration should be given to the fact that real humans will live only in small space and crowded quarters for transient periods; that they want and will have privacy, air to breathe and freedom; and that tenancy in such quarters is for the newly wed, the single business person and those, who, having reared their families, have retired. The suburban movement is a consequence.

The normal expected return on the total investment in various classes of apartment houses is as follows:

Non fire proof apartments	12-15%
Fire proof apartments	10-12%
Residential hotels	15-17%

2. Office Buildings—

The National Association of Building Owners and Managers, whose members report on a uniform accounting basis the results of operations of large business buildings and which gathers data from about 45 principal cities in the United States, advise us that in 1920, 90 buildings reporting showed a net return on the assessed valuation of 5.90%; in 1921, 150 buildings reporting showed a net return of 7.39% on assessed valuation; in 1922, 149 buildings reporting showed a net return of 8.10% on the assessed valuation. A later survey to ascertain the average ratio between assessed valuation and present full market valuation showed that assessed valuation was only 59.8% of present full market value. The figures, therefore, for 1920, 1921 and 1922, when translated to show the return on present full market valuation, would read 3.44%, 4.53% and 4.86% respectively, indicating that, contrary to the opinion held in some quarters, there is no large fortune in the operation of office buildings on the average. These figures, of course, represent average conditions and are subject to revision upward or downward as between the new, well designed and located building and the obsolescent architectural monstrosity of 30 years ago which is still well occupied because of location or demand. It may safely be assumed that all buildings reporting to this association are well managed.

(e) Percentage of Loan to Valuation:

Your Committee has given consideration to the widespread discussion concerning a more liberal allowance of loan to appraisal than has obtained in the past, but is strongly inclined to the belief that in view of the fact of greatly increased building and labor costs of recent years, it would be most inadvisable to recommend a departure from the conservative rules which have governed the investment of savings bank and trust funds in the past and have been the practice by conservative lenders of long experience. The great majority of the committee therefore believes that 50% of present costs should be the standard, with 60% as a maximum. In arriving at this conclusion we are not unmindful of the viewpoint of those who maintain that with the application of modern methods, rapid serial reductions in principal, periodical deposits of income, and with the added watchfulness of the investment dealer, a higher percentage may be loaned on first class income-producing property with safety. This could only be countenanced, however, if the investor is compensated for the added hazard by way of an interest return above the normal and knows what he is actually getting as security.

Attention is here directed to the methods of evaluation suggested earlier in this report and again to the importance of setting forth in circulars the details of appraisal. It is conceivable that many real estate mortgage bonds are being offered today which, in fact, encompass bonds, preferred and common stock and founders' shares, all in one, without the investor knowing what he is really getting. An honest set-up of a new building corporate enterprise which suggests itself would be to base the mortgage bond issue on 50% of sound value as determined by methods heretofore mentioned, let the balance of the sound value be represented by preferred stock, and let any capitalization of superior earning power be represented by common shares of no par value. The same principles recommend themselves, with slight modification, in the case of a privately owned enterprise.

Members should bear in mind the following:

1. First mortgage loans on city real estate have heretofore, as a class, enjoyed the highest rating as safe investments, and no practice should be permitted to creep in which would change that high rating.
2. Real estate loans offered to the public as investments should be thoroughly justified by the value of the specific properties securing same, irrespective of the standing or present financial condition of the house offering them.
3. Every first mortgage loan should be followed by adequate amount of equity or junior financing—similar to the preferred and common stock of a public utility or other corporation financing; the first mortgage loan should not perform the functions of the junior financing or assume the risks of operation and management and normal fluctuations of income and values.

(f) Protection during Construction:

The necessity for handling construction loans is recognized. While it is preferable from the investor's standpoint for the issuing house to hold such loans until such constructions are completed, it is believed that such securities may be sold in advance without undue hazard to investors, provided proper business and legal steps are taken for his protection. The Committee agrees most emphatically that the investor should be informed he is buying a bond on an uncompleted project. Where funds are received from sale of bonds against uncompleted construction projects, the Committee presently believes that such funds should be impounded with a proper fiscal agent such as a trust company organized under state laws or a national bank with trust powers, under a plan of disbursement against architect's certificate, waivers of lien and other evidence proving that such investors' money as represented by proceeds from the sale of bonds has been invested in the property. The issuing house should protect itself by requiring the borrower to furnish surety bond insuring completion of the project and application of loan proceeds. The Committee agrees that the issuing house should guarantee the investor that the project will be completed and ready for use free from mechanics' liens. Your Committee appreciates that a certain facility of operation can be obtained by carrying on all of these processes within the issuing house, but cannot but feel that, viewing the proposition from a broad standpoint, there are inherent dangers in this method. Where the issuing house retains such funds and disburses them, then such funds should be marked in such a manner that, in the event of financial disaster to the house, such funds would not become subject to a claim by common creditors. Funds accumulated by an issuing house for the purpose of retiring interest or principal of bonds, should be handled in the same manner as outlined above.

(g) Trusteeship:

While fully aware of the business advantages in the use of an individual trustee affiliated and familiar with the methods of the issuing house, the weight of opinion in your Committee is that the use of a corporate trustee, such as a modern trust company or a national bank with trust powers, possibly supplemented with an individual co-trustee, will make for the soundest practice and in the long run tend to protect the interests of the issuing house, the individual investor and the business as a whole.

(h) Representations in Circulars:

Your Committee is most emphatic in urging that all essential facts be clearly stated in circulars; that there be no evasion or silence on points which might lead the investor to the wrong conclusion. In order that liability for statements of appraisals may be fixed and determined, it is the present belief of your Committee, as previously stated, that the detail of the land and building appraisal should appear in circulars and advertising, and where appraisers other than those in the employ of the issuing house are used, their names should be stated, and where the appraisal is by the issuing house, this fact should be stated. The circular should state the name and address of the borrowing corporation or individual. If the issuing house has any personal interest in the property, that fact should be stated. Full description of the property should be given, and if any part rests upon leasehold interest, the terms of the lease should be given in considerable detail. The words "first mortgage bond" have long been recognized by investors to mean a first mortgage on both building and land, the latter commonly known as the fee. The use of this term without qualification in connection with the mortgage on a building erected upon leased grounds, or any lack of frankness or obscure reference to this fact, is misleading and should not be countenanced.

It goes without saying that earnings over a period of time, properly analyzed, should be set forth in detail. In case of a new property, the estimate of future income should be conservative and justified by actual experience with similar property. If the building is still to be constructed or is under construction, that fact should be set forth in no uncertain language, and a statement should be made as to how the proceeds of the loan will be safeguarded during the period of construction. Names of the trustee or trustees, approving attorneys, guarantor of title, and other experts should be given. If the building is to be constructed or under construction, illustrative cuts showing the building as it is proposed to be should be clearly designated in some such language as "architect's drawing of proposed building" or "drawing of building under construction," and the issuing house should see that such cuts are not unduly embellished.

The importance and great value of good faith and good judgment on the part of the issuing house are fully recognized, but it is believed that, as a matter of principle, investments should be sold on their own merits, and that a circular put out by any investment dealer who is a member of the Investment Bankers Association should not only be in such form as would satisfy its trusting customer, but would also satisfy the scrutiny of fellow members in other investment houses who may be called on to give their advice regarding the security in question, or to pass upon the collateral value of the bonds for bank loan purposes.

It has long been recognized that the basic security of improved real estate is, from the standpoint of safety, second to none, and it is a matter of great satisfaction that a modern system of bringing this excellent type of security to the attention of a vastly increased class has been evolved. Investment bankers have full warrant for viewing this line of investments as a new and profitable field for their endeavors. It must be recognized, however, that many of them have not had long experience in this line; that the circumstances of the times are unusual; that in setting up standards for the safeguarding of the investor, limitations will necessarily be placed upon individual freedom of action. With a hearty appreciation of all of these factors and a willingness to co-operate along the lines of the best practices of the past, coupled with such new insight and methods as commend themselves to capable and experienced investment bankers, we may all look forward to a future, in dealing with this class of securities, of increased profit and lasting satisfaction.

Minority Report by H. N. Gottlieb of S. W. Straus & Co., Chicago.

I dissent from the portions of the majority report which fix as the criterion for the percentage of loan the saving banks and trust fund basis of 50%, with 60% as a maximum; also from the insistence upon impounding of construction funds and the utilization of a trust company trustee; also from the pronouncement that there should necessarily be set forth in circulars and advertising such readily abused data as detail of land and building appraisal. It is the opinion of the writer that there was a sufficient degree of uncertainty in the committee upon these subjects to incline them to defer specific recommendations at this time; but the feeling seemed to be that the instructions of principal officials of the association necessitated the taking of a definite position on all controversial questions at this juncture. I repeat here what I stated to the committee in oral discussion that this attitude of hasty decisions and rules is the same basic, underlying fault which has led to the mass and mess of ill-considered legislation about which the whole association complains, namely the feeling of legislatures that they must legislate voluminously, however meagre their investigation and information may be upon the subjects involved. The following represents my views of the nature of the report which the committee should have made at this time; it was presented to the committee in substantially this form:

"Your committee refrains at this time from making specific recommendations upon the controversial questions because they doubt the fairness of determining these matters by mere majority vote. The members realize that each brings to these subjects the predilections developed in the

conduct of his own business; and the fact that these predilections, however conscientiously entertained, incline the majority to a particular view, should not be made the basis lightly to decree that others must conform with that view. Insistence upon independent corporate trustees and the impounding of construction and other funds may mean the artificial injection of trust companies and banks into business which may properly be conducted independently. There may be some analogy to banking in the handling of construction and other funds by real estate bond institutions, but at most this is true only in a limited degree, because instead of demand liabilities there is only a definitely measured contract responsibility to meet construction needs and specifically accruing principal and interest payments. For these purposes sufficient safeguards may be insured to an extent commensurate with the relatively small scope of the banking phase of the business. Supervision of this character is already exercised in one or more states. Your committee confesses its reluctance to adopt recommendations which involve complicated new legislation, if they are to be made effective in quarters where abuses are really likely to occur. In addition to the difficulty of procuring proper scientific legislation in any jurisdiction, is the manifoldly more difficult problem of harmonious legislation and a fair local attitude in all the states where an institution operating on a national scale should have the privilege of conducting its business. Your committee is not disposed to advocate superficially considered panaceas. It was suggested at White Sulphur in May that there be secured the participation of the Board of Governors, or of representative members of that body, in the study of these matters. This has not been feasible up to the present time, and any report presented now will represent simply renewed consideration upon the eve of the convention of subjects about which there has been no discussion by the committee since the White Sulphur meeting. The committee feels that the questions of policy involved are so broad and important, and of such vital concern to some members of our association and to the whole upbuilding of the country through real estate bond financing, that the entire subject should receive special advance analysis and consideration by the leading spirits of our organization; rather than to confine the detailed consideration to a subordinate committee, followed only by cursory attention in busy meetings of the Board of Governors or of the membership at large in annual convention. It is conceived that a practicable solution may be evolved in conjunction with the adoption of regulations for the use of the name of the Investment Bankers Association. We believe that we have made sufficient progress this year and that the Real Estate Securities Committee is sufficiently close to unanimity on the fundamental principles involved to augur well for the adoption of a workable plan in the year to come which will receive the hearty concurrence of all, provided the matter receives the intensive study and deliberation it deserves."

V. LEGAL PHASES

Inquiry was instituted in the principal sections of the country to learn of the passage of any new laws favorably or unfavorably affecting real estate securities. Only the following were noted as of sufficient significance for mention:

(a) Bills were introduced, but not passed, in a number of states, seeking to tax mortgages as interests in real estate. Should such laws at any time become enacted, it would mean that the holder of a real estate mortgage or bond, resident or non-resident, directly or indirectly would have to sustain a considerable part of the tax burden which rightfully should be borne by the property owner. The amount of taxes assessed against the mortgage or bond holder might easily equal half of the annual interest on the mortgage or bond. The persistence of the effort to pass such laws calls for due watchfulness.

(b) Salutary legislation has been enacted in Texas, California and other states, providing that the lien of the United States for any claim for taxes due by the taxpayer shall not become a lien upon the taxpayer's property until a notice thereof has been filed with the county clerk or recorder of the county where the property is located. At present the lien becomes effective as soon as the Collector of Internal Revenue files notice of claim with the Clerk of the United States District Court, and this court notice may or may not come to attention through the usual examination of records for title purposes. The United States statutes expressly provide that a state may enact laws similar to the Texas and California measures, and other states might well follow a similar course.

(c) The Denison Bill and Blue Sky legislation are being covered by other committees.

(d) Zoning Ordinances—The desirability, for both practical and aesthetic reasons, of limiting the height and area of buildings and segregating business property from residential districts, has brought about the establishment of zoning ordinances in many of the principal cities of the United States. The cities thus affected have gone through a period of understandable unsettlement and adjustment. The correctness of the principle of zoning ordinances may now be said to have been generally recognized and has been upheld by the Supreme Court of the United States. As time goes on, the benefits of such ordinances should be more and more apparent and the inequalities and unsettlement less and less common.

Respectfully Submitted,
MORRIS F. FOX, Chairman.

THE PROBLEM OF SECOND MORTGAGES

SAMUEL N. REEP, Minneapolis
President, Home Financing Corporation, and Home Building and Loan Association

CHAIRMAN CODY: Probably no one in this country is better qualified to discuss the important subject of second mortgage financing than the next speaker. Many of you heard his helpful, instructive address at San Francisco. I have never attended a session where there was more lively discussion or more questions asked than after the address of Mr. Reep, who will tell us of the company which he formed, and of the methods they have employed, and will report on the nation-wide canvass he has made on the subject of second mortgage financing.

Mr. Samuel N. Reep:

My father was a minister. I used to hear him say that when his four boys were small he could preach convincing sermons on the subject of raising children, but that after he raised the said four boys, he stopped preaching about raising children at all. I have a somewhat similar feeling with reference to the problem of "Second Mortgages." At first when I was dealing with them in a small way, I felt quite sure that I knew something about them, but after having had a good deal of experience with them, I came to the conclusion that I would rather sit quietly while someone else talked who had less experience.

Years ago, before going into the mortgage and banking business, I was on the faculty of two universities, where I became accustomed to much academic discussions of economic problems. This afternoon, however, while the discussion will involve principles to some extent, the major part of the discussion will be dealing with the facts of the second mortgage business from those parts of the United States and Canada from whence it was possible to get the information desired.

The method of getting this information was by sending a questionnaire to the secretaries of all the real estate boards in the United States and Canada, asking them to give these questionnaires to several of their Realtors best informed on the subject. The questionnaire ended with this request:

"Please write me a letter, giving general information concerning the cost of first mortgages, second mortgages, and contracts for deed in your city. What per cent of the total cost of the home can be financed and what does such financing cost, and how must the loans be repaid?"

The questionnaire is as follows:

1. What percentage of the total value of the property is financed on first mortgage?

2. What percentage of the total value of the property is financed on second mortgage?

3. What percentage of the total value of the property is financed on contract for deed?

4. Do many Realtors prefer the second mortgage or contract for deed, and why?

5. What per cent of the second mortgage or contract for deed is paid off each month?

6. What is the range in years that second mortgages or contracts usually run?

7. What per cent of commissions or bonus is usually paid?

8. What is the range of discount given by Realtors when selling second mortgages and contracts for deed?

9. What different methods do the people of your city use in financing their homes above the first mortgage.

You will notice that our investigation of second mortgages deal with homes only, though some of the facts and conclusions are applicable also to the smaller flat and business properties.

I wish at this time to express my approval of the new divisions made in the National Association of Real Estate Boards. These divisions give the Mortgage and Finance Division as well as the other divisions an opportunity to investigate and discuss their own particular problems. It also makes it possible to make investigations of the same problem in many different cities. I wish also to express approval of the excellent co-operation which I received from the various real estate boards in filling out the questionnaire which I sent them and in giving me special infor-

mation. While there is still room for improvement along the line of giving information of this sort, the beginning which I have made has been most satisfactory.

PART I.—The Problem Involved

The fundamental purpose of this investigation is to find out the best methods of stimulating home ownership in the United States through the financing of homes. It is needless to say that the most difficult problem in home ownership is the financing. One can always secure materials for a home and labor to build a home, but it is not always possible to get the money with which to finance it. The most difficult problem, therefore, in stimulating home ownership is that of financing. It is to the solution of this problem that the National Association of Real Estate Boards, through its Mortgage and Finance Division is lending its assistance by this investigation.

Out of about 200 questionnaires which were returned and out of about 100 individual letters of general information, I found that first mortgage money was quite readily obtainable. These answers, of course, nearly all came from the larger cities. The stimulation of home ownership through adequate financing in small towns is a problem deserving special investigation. The first mortgage money being so readily obtainable in these cities represented by the real estate boards, our problem shifts naturally from that of first mortgages to that of second mortgages.

Land Contract Money Scarce

It is the financing of homes above the first mortgage that is difficult. I found everywhere that the cost of first mortgages was low and what seemed to me to be very reasonable. In fact, I have not found that the availability of first mortgage money is much of a problem at all, if the applicant has adequate security to offer. I have found, however, that the availability of second mortgage or land contract money is quite difficult everywhere.

I have noticed also that even where it is available, it requires a pretty high bonus or discount to get it. It is not within the requirements of this paper to discuss what a reasonable bonus or discount is on a second mortgage. That would be an academic discussion which I will leave for some of you who have never taught school. I will deal with the facts as given in the questionnaire received from the different cities.

I am sure you will agree with me that the problem of second mortgages and land contracts on homes is the most difficult problem that the prospective home owner has to solve. Cities that wish to do some fundamentally constructive work in stimulating home ownership and reducing bolshevism, will in my opinion assist in the solution of the most difficult problem.

The Better Plan

Home owners are not influenced readily with bolshevistic propaganda, and the red flag does not fly over the house occupied by its owner. They are economically interested in their country and the expense saved their employers in labor turnover is incalculable. It is my opinion, after mature reflection, that much of the money spent by groups of well-meaning wealthy and responsible business men in combatting bolshevistic ideas would be much better spent in constructive work of assisting laboring people to own their own homes. Their money can be put to work financing homes above the first mortgage where it would be paid back by the month and again used, while in political propaganda it is shot once for all like powder from a cannon.

The present method of dealing with the problem is curative, while the method I am here advocating is fundamentally constructive and preventive. Everybody knows that "an ounce of prevention is worth a pound of cure." The second mortgage field in the past has been too much considered as a fruitful field for the exploiter. In fact, most of those who were engaged in the business were called "loan sharks" and were classed in almost the same class as the chattel mortgage lenders.

It has become difficult indeed, for a Realtor to go into the second mortgage field and still enjoy the confidence of the public. Perhaps the time will come when the Realtors of the nation can enter the field of second mortgages and land contracts as far as homes are concerned and place it on an ethical par with the other divisions of the real estate business.

PART II.—How the Problem Is Being Solved

I will now give you a summary of the information gained through the questionnaire, and the general letter accompanying it.

First, we must find out what percentage of the home is financed on first mortgage, and then we can find out what part remains to be financed. According to the questionnaire returns we find that 53.7 per cent of the home is financed on first mortgage. That leaves a balance of 46.3 per cent to be financed by the owner's own money and on second mortgage. The average percentage of the total value of the home financed

on second mortgage or land contract is 29.6 per cent. Fifty-three and seven-tenths per cent, which is the average loan on first mortgage, plus 29.6 per cent, which is the average loan on second mortgages or land contracts, equals 83.3 per cent, which is the total amount financed. This leaves the balance of 16.7 per cent, which is being financed by the home owner himself. We will not go into the academic discussion of how much a man ought to pay down on a home before having it financed, though I have my own ideas on that subject.

Most of the Realtors prefer the land contract to the second mortgage because under the statutes of the various states it is possible to gain control of a property through foreclosure sooner under a land contract than under the second mortgage.

The average monthly payment on second mortgage or land contract is 2.8 per cent. Again we might have an academic discussion of how much a man can afford to pay off per month on his second mortgage or contract, but the fact as given in the questionnaire is probably more interesting to you. The length of time that second mortgages or land contracts run varies greatly. The average is 5.4 years.

Commissions Paid

We now come to that most interesting information of commissions or bonuses that must be paid for second mortgages or land contracts.

In some localities I am informed that all second mortgages are purchase money mortgages, as reported by the Tukey Co., of Omaha, Neb., and where no new second mortgages are made by outside parties, and where Realtors sell said mortgages and contracts. The average commission bonus or discount on second mortgages according to the questionnaire returns paid by Realtors is 8.8 per cent. This would be another excellent place to enter into discussion of the problem; what is a reasonable bonus or discount for a second mortgage?

The fact in the case is, that according to the returns received in our comprehensive investigation, the second mortgage market stands an average discount of 14.3 per cent. This may be reasonable or unreasonable, but is not within the scope of this paper to consider. We are more interested in facts just now than in theories.

Financing

I have also made some investigation of the financing of homes by building and loan associations, but did not have time to make as thorough an investigation as of the foregoing mortgage and real estate companies. Through the courtesy of the well-known building and loan expert, Mr. K. V. Haymaker, who was on the program at San Francisco last year, I have the following information:

"1. The percentage of the value of the mortgaged property which building and loan associations will loan, varies in different sections of the country, and in different communities in each section. Broadly speaking, the ratio of the loan to the value of the property, varies from fifty to eighty per cent, the average probably being about sixty-six and two-thirds per cent. In some states this is limited by statute. New Jersey laws place the limit at from fifty per cent to seventy-five per cent, and still other states' laws are silent on this point, leaving the matter to the judgment of the directors of the several associations. As a general statement, however, it may be said that the building and loan associations will lend two-thirds of the value of the premises.

2. The cost of expenses involved in obtaining a loan from a building and loan association is not uniform with all associations. In some cases, the borrower is charged with only the actual expenses involved in viewing and appraising the premises, the drafting and recording of the necessary papers, and other services.

Some Make Flat Charge

In other associations the practice is to make a flat charge on all loans to cover the cost and expenses involved in consumating the loan, and again other associations charge a certain percentage of the loan to cover the costs, and in some associations a bonus is charged on all loans in addition to the actual cost incurred by the association in consummating the transaction. In very few, probably in no case, do associations impose costs and expenses on loans when obtained from other reputable sources.

As to the rate of interest charged by building and loan associations, that will usually be found to be the rate of interest prevailing in the community where the association operates, and varies in different sections of the country. In rapidly-growing communities in the West, where the demand is heavy and the supply of funds is meager, mortgage rates, from whatever source the funds are obtained, are higher than in the Central and Eastern states.

Throughout the Eastern and Central part of the country, the usual rate paid on loans from

building and loan associations varies from seven per cent to six per cent and in very rare cases is it higher. In the Western and mountain states, it will be found in some cases to be higher, and in such cases, all mortgage loans in that community will be found bearing a higher rate.

Repayment of Loans

3. How are these loans repaid? The rule which is practically universal among building and loan associations, is to require a monthly payment equal to one per cent of the original debt. This payment covers the interest, and also a portion of the debt. Some associations credit the portion of the payment above the accrued interest, to the borrower's stock, permitting the debt to draw interest on the full sum of the loan until it is wholly paid, giving the borrower dividends on the sums credited to his stock. In most of the larger and more modern and progressive associations, it is the practice to apply the part of the payment in excess of the accrued interest, to reduce the principal of the loan at each semi-annual or quarterly settlement, computing the interest at the next settlement, on the portion of the debt remaining unpaid. Borrowers can at any time make additional payments in excess of the regular required payment of one per cent per month, and can repay the loan in full and have his securities released at any time.

Financing Above First

It will thus be seen that building and loan associations are also trying to assist in financing homes above the amount usually loaned by first mortgage companies. While under the laws of some states building and loan associations are permitted to loan on land contracts, in most states they are limited to first mortgages only.

As a rule, building and loan associations, however, loan a considerable amount more on the first mortgage than the first mortgage and real estate companies. That leaves a less amount to be financed on second mortgage. In most cases, however, it is more difficult to get a second mortgage on a home, having been financed by a building and loan association, because the building and loan association requires monthly payments on its mortgages. This reduces the amount of the monthly payment that would be possible for the home owner to pay on his second mortgage.

In many cases, however, the larger loan of the building and loan association would be all that is necessary to finance, and therefore, a second mortgage would not be necessary. I will, however, not go into detail in the matter of building and loan associations because that subject has been discussed by one of its experts at this meeting. I will say, however, that in my judgment the solution of the home financing problem in the smaller towns lies in the local building and loan associations, where the officers are local business men and know the borrowers personally and where depositors are also local people who are well acquainted with the working of the building and loan associations.

I do not have much confidence in building and loan associations doing business outside the city where its officers and directors live.

I have introduced it, however, because of its close relationship to the subject of second mortgages, and because it would be impossible to ignore the building and loan association in any discussion on a subject of financing homes above the usual 50 per cent mortgage. This seems to me to be of such great importance, that about a year ago I organized a building and loan association to operate in conjunction with the Home Financing Corporation, which was organized three or four years ago. I am president of both companies, and the other officers are the same in one as in the other. If you will pardon my referring to these two companies, I shall be glad to take the lid off, and give you a few facts concerning their method of operation.

PART III.—New Developments

The Home Financing Corporation was organized by public-spirited citizens of Minneapolis, who wanted to do something which would stimulate home ownership in our city. We finance homes up to eighty per cent of their value on the monthly payment plan. The monthly payments are a little less than one per cent per month. We charge the first mortgage real estate board rate of commission on the entire amount, thereby eliminating the large second mortgage bonus or discount.

Funds From Public

In order to re-finance ourselves, we used to place first mortgages on these properties, at our own expense, up to forty or fifty per cent of the value of the property, with savings banks, insurance companies and private individuals. Often it was necessary to pay a commission thereon. I wrote to a number of insurance companies, seeking to become their correspondent and make loans for them in the city of Minneapolis. I was not successful in getting a satisfactory connection. I did not like to pay a commission while doing a civic work, generally recognized as being helpful to the city. I wanted to get

into direct touch with funds, so as to eliminate commissions, and to enable prospective home owners to have the advantage.

It was during this search for funds, or for some sort of an organization through which funds could be obtained, that I came upon the building and loan association idea. So I decided to go to the people for funds instead of to private sources of capital. This was done through the co-operative financial institution provided under the statutes, and called building and loan associations. The loans in the Home Financing Corporation average about seventy per cent of the value of the property.

Association Holds Title

When these loans have been reduced to between fifty and sixty per cent of the value of the property, and if the payments have been made promptly, the loans are then taken over into the building and loan association, at the same rate of interest but without commission. At that time also the applicant gets the title to the property in his own name, and his monthly payments are reduced to $11 per thousand. It will be noted that in the Home Financing Corporation, the title is kept under the name of the corporation and the applicant is given a contract for deed. The corporation makes all its contracts for five years, but when the loan is taken over into the building and loan association, there is no due date. The applicant pays at the rate of $11 per thousand per month, or more, until the loan is completely paid.

Charge Seven Per Cent

We charge seven per cent interest in both corporation and building and loan association. In the Home Financing Corporation the applicant receives his money at the first mortgage rate of commission, thereby eliminating the usual large second mortgage bonus. In the Home Building and Loan Association, he receives his loan at seven per cent without commission and without any further renewals or renewal expense, which is as good as six per cent with the usual board rate of commission.

We can compete, therefore, in the building and loan association for the best loans in the city of Minneapolis. It is our experience that people much prefer to have one contract where they are obligated to only one company, rather than to have the title with two mortgages where the mortgages are held by two different parties.

Pay Five Per Cent Dividends

The Home Financing Corporation pays five per cent dividends, and has built up a reserve fund of about twelve per cent. The building and loan association pays six per cent dividends on savings deposits and has built up a reserve of about two per cent since January 1. Of course, this has been possible only because the Home Financing Corporation has borne all the expense of organization and operation of the Home Building and Loan Association.

The Home Financing Corporation is the parent organization and is rearing the child, the Home Building and Loan Association, until it grows up where it can bear its proportional part of the expense. While the officers in both the corporation and the association are identical, the loan committees are entirely different, with the exception of the president, who is a member of both committees.

Combination Works Well

As far as our experience has gone, this combination of private corporation and a quasi public co-operative financial association works well. We would not be justified in accepting loans up to eighty per cent of the value of the property in a building and loan association as security for the savings deposits of the people. We would not consider such security adequate for savings deposits; but in a private corporation, organized for that purpose, we are justified in making loans up to eighty per cent of the value of the home when carefully done.

At the last annual meeting we had only one borrower in the Home Financing Corporation who was slightly in arrears on his interest and only a few who were slightly in arrears on principal, all of which have since been made up. I have been informed that in some cities where the values are said to be very stable, the building and loan associations have loaned as high as eighty per cent on first mortgage. In Minneapolis, which is a new and growing city, we would not feel justified in loaning that amount when the savings deposits of the people are to be secured thereby.

Bridging the Gap

Another development, known to some of you, but new to the general public, in bridging the gap between the first mortgage and the amount of money a man has with which to purchase a home, is explained by Mr. Haymaker, as follows:

"How do the people pay the balance on the home above the first mortgage taken by the building and loan association? Many building associations have adopted a plan for bridging the gap between the cost of the property on the one side

and the buyer's available cash and the association loan on the other, which we believe is the safest, most convenient and satisfactory plan which has ever been devised. This is known as the plan of a mortgage loan, with collateral stock as additional security.

A Practical Example

"To illustrate the practical operation of this plan, let us assume that a contractor has a home which he wishes to sell at $6,000. The buyer has $1,000 of ready cash, and the association restricts its loan to two-thirds of the value of the mortgaged premises. The amount which the association is willing to advance on this deal is $4,000 which, added to the buyer's cash, makes $5,000, leaving a gap of $1,000 to be bridged.

"Under this collateral stock plan, the association accepts from the buyer a mortgage for $5,000 on which it will advance $4,000 in cash and will issue to the buyer, full paid stock of the association for $1,000, which the buyer is required to assign to the association. This stock participates in dividends like other stock, and at the close of each dividend period, the owner of this collateral stock is permitted to withdraw therefrom a sum equal to the net credit which the buyer has accumulated against his debt, during said fiscal period, in addition to the dividend declared thereon.

"The buyer settles with the contractor by turning over to him his own cash, $1,000, also the $4,000 received in cash from the association and also the $1,000 full paid stock, subject to the terms of the assignment to the association. By this arrangement, the contractor receives $5,000 in cash and $1,000 of stock drawing the regular rate of dividend paid by the association, but subject to the terms of the assignment.

Has Many Advantages

"This plan of financing a home buyer or home builder has many advantages over any second mortgage plan. It leaves the entire debt in the hands of one agency. There is a psychological advantage of owing but one debt instead of two, and having only one creditor to whom payments are to be made. Under the terms of the assignment, the holder of the collateral stock is paid off before any payments are made on the $4,000 portion of the debt. It requires the execution and recording of only one set of papers instead of two, as would be required in a second mortgage.

"The collateral stock can be assigned and transferred, subject, of course, to the terms of the assignment, just as easily and with no greater rate of discount than would be paid on disposing of a second mortgage. The holder of this collateral stock would be in a better position than the holder of a second mortgage, since he would have no work, time or attention to bestow on looking after his investment, since that is all done by the association as a part of their regular routine business.

"This plan is being used quite extensively by many of the largest and most successful associations, and in practical operation has been found much more satisfactory than floating a second mortgage to make up the funds needful to finance such deals."

The Dayton Plan

Another development is explained by D. J. Boyd of the Dayton Real Estate Board, as follows:

"I think that any discussion of home financing should incorporate serious consideration of what is known as the 'Dayton Plan,' because it originated here. Second mortgages are useful and have their place, but unfortunately the high rate of discount, the short tenure and their high rate of monthly re-payment restrict their use and do not attract the average buyer.

"The land contract is necessary and convenient but it does not give the buyer the full satisfaction of ownership, convenience of payment, feeling of security in case of distress, etc. The greatest objection we find to them is that the transfer is not as simple as a deed and because the consideration is disclosed, more barriers are placed in the way of free trading by raising the question of profit in the purchaser's mind.

"I presume that you are familiar with the 'Dayton Plan.' However, I will give you an example of operation:

Selling Price	$10,000
Purchaser has 10 per cent or	1,000
Balance to finance	$ 9,000
Building association will pay out two-thirds of purchase price or approximately	6,600
	$ 2,400

"Balance of pledged stock held in the association until reduced by purchaser's payments is paid out to seller in proportion to the loan reduction rate. Pays interest at six per cent. The purchaser or borrower pays $90 a month, from

which interest at seven per cent is deducted semi-annually on both amounts due. The balance applies proportionately to both principal sums.

"The entire transaction is handled through the association, the purchaser gets deed. The plan is subject to some variations according to the policies of the different associations. The plan is responsible for the high percentage of home owners in Dayton."

There are many more variations of the plans suggested for financing homes above the first mortgages, but some of them are applicable only to large cities, and others hardly merit special consideration. They are simply exploits or second mortgage sharks' plans. The foregoing are the principal methods of financing homes above the first mortgage which have come to my attention.

An Important Field

As I stated in the beginning, I do not feel that I know a great deal about this subject, but I am convinced that it is a great field of future endeavor for the real estate boards affiliated with the National Association. It has been one of the exploited fields which should now be cultivated to bring forth good fruit. In the hands of the unscrupulous, the second mortgage business has brought the entire real estate profession much of the disrepute which has been heaped upon it.

The ethics of the National Association and the local real estate boards may well be extended to include this wonderfully useful and fruitful field of second mortgages. There is no obstacle to home ownership so great as financing above the first mortgage, and there is nothing more needful for good citizenship than home ownership. Therefore the National Association and the local real estate boards can render a most useful local and national assistance in bettering our citizenship through the ownership of their homes.

Discussion:

Basis of Stock Purchase

Mr. C. C. Rasmussen (Ogden, Utah): What do you charge the buyer of stock in the building and loan association? Do you charge a commission for the sale of stock in your association? If you do charge a commission for the sale, or for the stock you sell to the borrower when they make this loan, what commission do you charge?

Mr. Reep: A man comes in and deposits $100, we will say, $100 for a share. He gets $100; he pays no membership or withdrawal fees in our association.

Mr. Rasmussen: Isn't there a tendency on the part of building and loan associations to compel the party to buy stock in order to obtain the loan?

Mr. Reep: I understand that is the case in many building and loan associations, but not in ours.

The Dayton Plan

Mr. W. E. Lyons (Kansas City): With reference to the Dayton plan of financing, whereby you can take one thousand dollars paid up stock, for instance, to fill up the difference between the one thousand dollars and the amount of money they will lend, who takes that paid up stock, the builder?

Mr. Reep: My understanding is that in most cases the builder takes that, but subject to the assignment.

Mr. Lyons: I understand, but if the builder doesn't want to take it; then the property owner has to find somebody who will take it?

Mr. Reep: Yes.

Mr. Lyons: Doesn't that get it back then almost to the second mortgage basis?

Mr. Reep: I think so; yes.

Mr. Moore (Dayton, Ohio): I will be glad to answer that question. We deal in pledged loan collaterals. We buy those just the same as we buy second mortgages.

We are rather new in the business, and I question the desirability of it. The real facts as to collaterals on pledged stock, as it was referred to, are new to the building associations, as I understand it.

Some of our associations will realize the total amount paid over and above the interest. For instance, on $5,000, what the purchaser pays in over and above the interest on $5,000, would be released each dividend period of the association, which is twice a year; some of them in July and January, and others in October and April.

But some of the other associations in Dayton will not release one cent of that pledged thousand until the entire $1,000 is paid off. Others of them are adopting a new plan, paying you $10 a month, the release amount. The $1,000 bears a payment of $1 per hundred a month. That is the current plan. They will release you $120 a year. In that $120, of course, must be interest at 7% on $1,000. Then there is $162 at the dividend period. You draw that entire

amount. Those rights are sold. We negotiate them over and over again. The association allows them to pass.

I would like to say in connection with this, that we have had some comments about land contracts, and this pledged stock, pledged building and loan stock.

I think it is something that should be considered and I would like to suggest it to the committee who are studying the details of this work.

I suspect that the building and loan associations are going to feel it is a mistake for them to handle these collateral issues, because we can not buy them on the same legitimate basis we buy second mortgages, because the stock is pledged absolutely. At the end of six months they present a collateral certificate, and the board of directors of the building and loan association says whether you can have a dollar or whether or not you can withdraw any of this pledged collateral.

I think we ought to support the land contract or the second mortgage in preference to this pledged stock. It will put it where there will be a market for it, and put it where people can intelligently buy it, in preference to pledged stock, where you don't know what you have bought.

B. AND L. ASSOCIATIONS AS MAKERS OF SECOND MORTGAGES

SAMUEL STERN, Philadelphia
Secretary of Nine B. & L. Associations

CHAIRMAN CODY: If anyone will inquire as to the authorities on building and loan associations, probably three names will be mentioned, and one of them will be the name of our next speaker. He is secretary of nine associations in Philadelphia, treasurer of another, and chairman of state and local Real Estate Board Committees on building and loan associations. Surely we are very fortunate in having Mr. Sam Stern to speak to us on this subject. (Applause).

Mr. Stern: I have chosen as the principal topic of my address the advisability of building and loan associations making loans on second mortgages, the same as we do and have done for many years, in that so-called "sleepy city" from which I come, but which is so far ahead of every other city in the United States, not only in the building and loan business, but in the methods of financing real estate, that you can't see our dust. (Applause).

A Remarkable Record

The report of the Commissioner of Banking for the State of Pennsylvania for the year 1922 shows that the building and loan associations assisted in the purchase of over fifty-one thousand homes during the past year, of which number over thirty-five thousand were in the city of Philadelphia.

Just think of that, fellow realtors, over thirty-five thousand added to the number of home owners in Philadelphia in one year through the assistance rendered by these wonderful institutions, and to show that their work is appreciated, I will quote from an article in the Philadelphia "Public Ledger" of June 9, 1923, in which it states:

"There could be no better indication of the solid and permanent prosperity of Philadelphia and Pennsylvania than the vast increase in building and loan associations' business during the last year.

"The State Banking Department reports that there has been a gain of $77,116,000 in the aggregate funds of these organizations in the State, and that they have aided in building or buying fifty-one thousand seven hundred homes.

Demand Exhausts Funds

"The demand for building and loan funds, moreover, is so great that most of the associations are 'fully loaned up' and many of them are increasing their capitalization to meet the needs of future business."

Building a "City of Homes"

"The familiar building and loan association which has always flourished in Philadelphia to a notable degree, is one of the most practical as well as one of the simplest forms of co-operation. The title, "City of Homes," in which Philadelphians take just pride, is ours largely by reason of the building and loan associations in which the man of small means but big ambitions finds the way to realize what usually is the first and most natural of them—the possession of a home of his own, and equally the man of comfortable income finds in the building and loan association a safe and profitable investment for some of his surplus income.

Management and Supervision

"It is noteworthy that in the many years of their service the breath of scandal has scarcely blown upon these organizations. Not that they have been free from some minor abuses. But, on the whole, the associations have been honestly managed and strictly supervised. Otherwise, they could not have prospered."

Two Principal Functions

I will not go into great detail regarding the general plan of operation and management of building and loan associations at this time, but will call your attention to the two principal functions of building and loan associations, which are: first, they promote thrift by teaching economy and saving of small sums of money in periodical installments, and, second, they encourage the ownership of homes by loaning the money necessary for the purchase, which loan is payable in small monthly installments spread over a long period of time. (Applause).

Differ in Four Ways

They differ principally from most other financial institutions in four ways: First, they are operated at a much lower expense; second, their profits are divided equally among all their depositors, who are also the shareholders; third, only part of their monthly receipts are applicable for withdrawals, so that all danger of a run on the bank is eliminated; fourth, and most important

to the realtor, is the fact that all their available funds for investment are used for making loans on mortgage security, thereby helping materially in the sales of real estate.

10,000 Associations — Three Billion Assets

Scattered throughout the United States, with the State of Pennsylvania leading, and Ohio a close second, there are at this time approximately ten thousand building and loan associations, with total assets of over three billion dollars, of which associations there are over thirty-three hundred in the State of Pennsylvania with assets of over six hundred million dollars and of these nearly twenty-five hundred are in the City of Philadelphia, with assets of over four hundred million dollars. (Applause).

Philadelphia Stands First

So that Philadelphia has one-quarter of the entire number of associations in the country and almost one-seventh of the entire assets. This shows that Philadelphia is the largest and wealthiest building and loan association city in the United States, but in addition to this, the help that can be rendered to the home buyer and to the community has been extended to a higher degree of perfection in Philadelphia than anywhere else, and this fact is due primarily to two reasons: First, that a great many of the building and loan associations in Philadelphia have been organized and managed by realtors or men engaged in or familiar with the real estate business, and, second, that the building and loan association managers in Philadelphia have introduced and perfected the plan of building and loan associations loaning on second mortgage, which has encouraged many people to purchase homes, who might not otherwise have done so for fear that the carrying charges would be too heavy for them. (Applause).

If there is any person in any line of business who should be an optimist, surely it should be the realtor, and he is the one who should stand back of a second mortgage plan of this kind.

Success of Second Mortgage Plan

This feature of building and loan associations making loans on second mortgages is distinctly a Philadelphia innovation, and while it has been done successfully in that city for over thirty years, to my knowledge, the building and loan association managers and real estate men in other cities have not taken up this plan to any extent, and in order to convince you that the plan is safe and sane, I will give you the benefit of my own personal experiences in which the figures will be smaller than those quoted before, and, therefore, easier to understand and remember.

In the modest office which I maintain, we have ten building and loan associations, in nine of which I am secretary, and in one, treasurer, the aggregate assets of these associations, according to their last annual reports, being five million, seven hundred and fifty thousand dollars, and their receipts during the last year were three million, two hundred and fifty thousand dollars, of which at least one-half was used in making loans on second mortgages, and in as much as I have been in business over eighteen years, I think I am very conservative when I state that we have made loans on second mortgages amounting to not less than twenty millions of dollars, and that the losses on such loans in all that time have not exceeded ten thousand dollars at the outside, and none of these associations own a piece of real estate today. (Applause).

I give you these facts, not to be egotistical, because there are many other offices in Philadelphia that have done second mortgage business in an equal, if not larger amount and with the same small amount of loss, but to defy any other financial institution to equal this record of minimum proportion of loss in investments.

Example of Operation

Now, as a concrete illustration as to how the second mortgage plan is worked, let me give you this example: A man purchasing a home for ten thousand dollars and having two thousand dollars or 20% of the value to invest: In some states in the West this man could borrow only five thousand dollars from a building and loan association because the state laws prohibit such associations from loaning more than 50% of the value of same. In the state of New Jersey he could borrow eight thousand dollars, provided the building and loan association managers think that the property is worth the price he is paying, because in that state the law allows the associations to loan up to 80% of the value on first mortgage only, in which case he would be required to repay same at the rate of $40 per month and interest, and then he would own it clear some time between eleven and twelve years when the shares mature. In Pennsylvania, however, under our law, which allows the building and loan associations to loan on second mortgage and up to whatever percentage of value the managers of the building associations deem advisable, the most liberal plan to the borrower is that of the first and second mortgage, which is as follows:

Easy Payments on Second

The purchaser can place a first mortgage of five thousand dollars or 50% of the value of the property in a straight first mortgage for a period of three or five years, on which the interest only is payable semi-annually, and then he can borrow from one of our building and loan associations on second mortgage the remaining 30% or three thousand dollars, which must be paid off at the rate of only fifteen dollars per month in addition to the interest, so that he is required to reduce the mortgage only by three-eighths as much as if he borrowed the entire amount on the building and loan association first mortgage plan, thereby making the monthly payments considerably lighter, and, thereby encouraging many people to purchase homes who otherwise might be afraid or too timid on account of the heavy monthly payments. The only difference to the association is that under the second mortgage plan the risk is reduced more slowly, but this should not be considered any great objection if the property is well worth the amount necessary to enable a loan to be made up to 80% of its value, and particularly if there are realtors connected with the associations who know the value of the property and the possibility of its maintaining that value.

Realtors on Board

In Philadelphia it is not uncommon to find two, three, and sometimes as many as four realtors on the board of directors of one building and loan association.

It is, of course, necessary to place additional safeguards around the business of loaning on second mortgages, but by the experience gained in more than thirty years of active practice, a second mortgage loan by a building and loan association is looked upon, in Philadelphia, as being practically as safe as a first mortgage up to the same proportion of the value of the property, and I, therefore, hope to see the Philadelphia plan adopted in other cities in the near future, although a campaign of education is necessary before this can be accomplished. But, in the meantime, my message to all realtors is that everyone should take an active interest in the organization and management of building and loan associations, not because they help the real estate business, but because they encourage tenants to become home owners and naturally better citizens in the community in which they reside.

(Applause).

Discussion:

Second Paid in 11 Years

Mr. Ed. S. Porth, (Milwaukee): You mentioned that on a $3,000 second mortgage a man would only have to pay $15 a month?

Mr. Stern: Only have to reduce it $15 per month in addition to the interest.

Mr. Porth: That would take how many years to pay it up?

Mr. Stern: Eleven to eleven and one-half years, a little over eleven years.

Mr. Porth: It seems to me that on that basis, under an ordinary building and loan association mortgage, he pays up his entire mortgage in eleven years.

Mr. Stern: Yes, but he must reduce it at the rate of $40 a month.

Mr. Porth: But, under your plan he has still got his $5,000 first mortgage on it.

Mr. Stern: He can always pay more if he wishes to.

Make Firsts Also

Mr. W. E. Lyons (Kansas City): In all of your ten campanies do they confine themselves to second mortgage loans, or do you sometimes take firsts?

Mr. Stern: No, I mentioned that before. We are taking first mortgages, plenty of them.

Mr. Lyons: Do all of your companies do both?

Mr. Stern: Both. But, I want to say there are some conservative building associations in Philadelphia who will not loan on second mortgages.

Mr. Lyons: Do your subscribers understand you make second mortgages?

Mr. Stern: Absolutely.

Mr. Lyons: It doesn't make any difference in selling your stock?

Mr. Stern: None whatever.

Rate to Borrower

Mr. C. W. Hoff (Chicago): Does the borrower have to take stock in the association?

Mr. Stern: Yes.

Mr. Hoff: Participate in the stock of the association?

Mr. Stern: Yes.

Mr. Hoff: In other words, he borrows $1,000 and he pays $5 a month on the stock?

Mr. Stern: Yes.

Mr. Hoff: And how much interest?

Mr. Stern: That varies. Usually 6%, and a small premium, which runs up to as high as one and one-half per cent.

Mr. Hoff: Does the interest payment decrease monthly, or does it remain constant during the whole eleven years?

Mr. Stern: It remains fixed until the maturity.

Mr. Hoff: What rate do borrowers pay during the whole time?

Mr. Stern: Seven and one-half per cent, if he paid twenty-five per cent premium on the second mortgage.

Mr. Hoff: In other words, he pays $5 per month on the thousand he borrows——

Mr. Stern: Yes, five shares of stock for each $1,000.

Mr. Hoff: Then you charge him six per cent interest on the $1000, in addition to the premium.

Mr. Stern: Yes.

Mr. Hoff: And then the average of your loans run twelve years, and he has the use of his money for six years, though he pays six per cent on his money for twelve years?

Operations Differ Elsewhere

Mr. Stern: Please remember that my experience is in Philadelphia. We don't run our building and loan associations in Philadelphia as they do out West. My idea of a building and loan association is one where payments are made regularly, monthly, and loans are made only to stockholders. That is the Philadelphia plan of building and loan associations; a new series of stock every six months, and if a man comes in after the first two or three months, he must pay back from the time the stock started.

I understand that out West, they run them like a bank.

Straight Firsts Plentiful

Mr. Leo C. Van Hecke (Pontiac, Michigan): When you make a second mortgage, what period of time does the first run?

Mr. Stern: We have no difficulty in obtaining loans in Philadelphia from banks, trust companies and private individuals running for five years, on which interest must be paid only semi-annually.

Mr. Van Hecke: You have no difficulty at all?

Mr. Stern: No difficulty at all to place them.

All Mutual

Mr. C. C. Hiatt (Louisville, Ky.): Are all the profits distributed to your stockholders?

Mr. Stern: All profits are divided equally among stockholders and every borrower must be a stockholder.

Directors Control Investments

Mr. J. R. Leverett (Council Bluffs, Iowa): I was in Akron a couple of days ago and down there they had a lot of equities wiped out by the buyers under contract. With fluctuations this year, fifteen to twenty per cent, I think it would be dangerous to loan up to 75% or 80%.

Mr. Stern: I told you before, we don't always loan that high.

Mr. Leverett: What proportion of your capital do you apply to the second mortgages?

Mr. Stern: Absolutely at the discretion of the board of directors.

Percentage Loaned

Mr. Jackson: I understand you loan 80% on the present value of real estate?

Mr. Stern: Not always.

Mr. Jackson: What percentage less than the selling price are appraisements made on which to base your loan?

Moral Risk Important Factor

Mr. Stern: I would say we have no rule as to that, because we have a great many people in Philadelphia who joined the building and loan associations before they were ready to buy a home. Therefore, we take into consideration the moral risk, and we are intimately acquainted with our members, and consequently many times we will go higher than we would otherwise. I can cite you instances where we have loaned up to 90 or 93%, where a man has been a member for a number of years.

Mr. Jackson: When you spoke of percentage, you must have some basis for the valuation. On

a house selling for $10,000 how much would you loan?

Mr. Stern: $8,000, if we thought the price paid was fair.

Mr. Bingham: Do you get any payments on your first mortgages?

Mr. Stern: No, they are straight for three or five years.

Mr. Bingham: You made the statement that you are secretary of several different associations?

Mr. Stern: Yes. I am secretary of nine, and treasurer of one.

Mr. Bingham: Why so many? Why don't you make one big one?

Creating Wider Influence

Mr. Stern: The officers and directors of a building and loan association in Philadelphia do their work free of charge, for the love of it, and for the civic pride in helping the community. The only paid officers are the secretary and treasurer, and in some cases, they pay the directors $1.00 cation for a loan made, three directors who take the trouble to go out and look at that property are paid $1.00 each for examining that property.

It is not uncommon to have one, two, three, and sometimes as high as four realtors on the board of directors of any one building and loan association, and I defy even my friend, the previous speaker, to get a loan through that association that is not good and not what it ought to be.

As long as they do not serve for compensation, it is the idea to get as many men interested in these assoriations as possible. We can go to a man and say, "Bill, we are going to organize a building and loan association and want you to be a director." If he is willing to accept that, he is going to be a more valuable man than if it were already established when he came on the board.

The Board of Directors and officers usually consist of four principal officers and anywhere from eight to fifteen directors. Instead of having sixteen men working to bring in business, we have ten groups of sixteen men, or one hundred sixty men, working to bring in business, teaching people to save money, and encourage them to buy their own homes. (Applause.)

Shortage of Funds

Mr. Geo. T. Bader (Detroit): Is not your liberality actuated largely by the necessity of having your funds invested?

Mr. Stern: I will answer that in a word, that if the building and loan associations had five times the funds on hand now that they have, they could make good use of them.

Non-members Pay Commission

Question: Suppose I had a flat building worth $10,000, and a first mortgage for $5,000 and I come to you for a $3,000 second mortgage, what would you charge?

Mr. Stern: If the man is a member of our association and has carried stock in the association, he pays then but a nominal fee of from $15.00 to $25.00 for the preparation of the papers and the cost of the title record. If he comes to me as a stranger, we have a right to charge a commission for securing the money. Those charges vary in the different offices in Philadelphia.

Question: If you give me three thousand dollars, how much do I have to pay a month to pay it off?

Mr. Stern: You must subscribe for fifteen shares; you must pay twenty-five cents a share premium per month, on fifteen shares, which is $3.75, and $15 per month interest, or a total of $33.75.

Office Force Required

Mr. W. S. Kinney (Canton, Ohio): What office force does it take to handle this five and three-quarter millions of assets?

Mr. Stern: In addition to these associations with which I am connected, I also do a slight real estate business. (Laughter.)

I have in my office seven good looking girls and three men beside myself. But I want to state further that the salary I receive from the building and loan associations does not begin to pay the salaries of my assistants.

Second Mortgage Papers

Mr. A. J. Klyczek (Chicago Heights): When you make a second mortgage loan, take as an illustration that $3,000 loan you have been talking about here, and the first mortgage is held by a different bank or different mortgage company, what paper do you hold as security for that second mortgage?

Mr. Stern: Retain the second mortgage, bond and title guarantee policy, guaranteeing the building and loan association there is nothing ahead of it but that first mortgage. The borrower takes out an insurance policy for the first mortgage and a separate insurance policy for the second.

Rate Paid Stockholders

Mr. Robert Jemison, Jr. (Birmingham, Ala): What is the average rate to non-borrowing stockholders on their investment?

Mr. Stern: I want to say there is no difference. Every stockholder receives his share of the profits.

Mr. Jemison: I was wondering what a man realizes in interest on his investment.

Mr. Stern: Seven and two-thirds per cent, compounded annually, or close to nine per cent simple interest.

Average Amount of Second Mortgages

Mr. L. O. Robson (Buffalo): I would like to inquire what is the average in amount of second mortgages in Philadelphia?

Mr. Stern: The amount of individual second mortgages?

Mr. Robson: Yes.

Mr. Stern: That depends entirely on the association. Of my nine associations, one association alone is almost as large as six of the others. That association has monthly receipts of over $50,000, and received last year over a million dollars. Naturally, they prefer larger mortgages.

I have another association whose receipts are only about $10,000 a month. They prefer second mortgages of $2,500 to $3,000 each.

Record of Failures

Question: Have you any record of how many of these building and loan associations have failed in the last ten years?

Mr. Stern: I don't think there have been five failures in the last ten years. There were three in the last three years. One was a colored organization which just died out. Another one was an association that had a secretary who was over eighty years old, and allowed the shares to mature too soon.

None of the associations with which I am connected owns a piece of real estate, and I want to say, for the benefit of all who are here, that there are some men from Philadelphia in the room now who do as large, if not a larger building and loan association business, than I do. Don't think I am an individual case, by any means.

Opposes Prepaid Stock

Mr. Low (Kansas City): What do you pay your stockholders in the way of dividends on prepaid stock?

Mr. Stern: On prepaid stock we are obliged to pay a tax, and I am against anything that will tend to get the State or Federal Government in the habit of thinking they can collect taxes from building and loan associations. (Applause.)

There are some associations that issue it and pay somewhere between five and six per cent. Our State law prohibits building and loan associations from paying six per cent or over; it must be under.

There is a very large association in Harrisburg which has sold over six million dollars of prepaid stock at 5%.

Shares of Smaller Denominations

Mr. Low: Is there any advantage in having $200, or $100 certificates or shares?

Mr. Stern: There are associations that have $100 shares. That is a question of individual management.

The Depression of '94-'96

Mr. Hoff: About the associations that have failed, I want to ask the percentage affected in 1894, 1895 and 1896, when we had a great reaction in real estate. How were the associations affected at that time?

Mr. Stern: I am too young to answer that question.

Mr. Jas. C. Simpson (Norristown, Pa.): I will answer that question by stating there was not a failure of any association in '94 and '95. There were some properties taken over by sheriff's sales, but the building associations held on to them, and within a few years the building and loan associations sold those buildings at a profit over and above what they had in them. (Applause.)

Withdrawals

Mr. Stern: The law of Pennsylvania states that not more than one-half of the monthly receipts of building associations are applicable to withdrawals. But, we try to make it a hard and fast rule of the successful associations in Philadelphia to pay withdrawals at sight, although our by-laws provide for payment on thirty days' notice. Our withdrawals receive from three per cent up to six per cent interest depending upon the length of time the stock has been in the association. Up to four years or less we pay three per cent; four to six years four per cent, six to eight years five per cent, and so on.

The Hoosier Plan

Mr. L. J. Welch (Indianapolis, Ind.): May I give something of the Hoosier plan which is not quite the same as the Philadelphia plan? I am connected with the second largest building and loan association in Indianapolis. Incidentally, we have in Indianapolis the largest building and loan association in the world. (Laughter.)

It has deposits in excess of thirty million dollars. We loan only on first mortgages. Six and one-half per cent is the charge. We pay six per cent dividends.

Under the State law, we are protected with ninety day notice of withdrawals, and then not in excess of one-half of the available cash.

We are not permitted to loan on second mortgages.

We loan sixty to sixty-six per cent of the value of the property.

Mr. Stern: May I say that I object to that clause in your by-laws where you use the words "Available cash." It would give the association a loop hole, if a man wanted to withdraw, for the association to say they did not have the available cash.

Mr. Welch: We have been in business forty-nine years and have never failed to pay withdrawals on notice.

Mr. Stern: Good for you.

The Exact Interest Rate

Mr. H. L. Rust (Washington, D. C.) I would like to ask Mr. Stern if he has ever figured out what rate of interest per annum the borrower pays on the unpaid balance?

Mr. Stern: He pays about five per cent, when you take off the credit for what he earns on his stock.

Mr. Rust: How does he, if the stockholder gets seven to nine per cent?

Mr. Stern: The building and loan association, in addition to the profit that they make on the interest and premium, have other sources of profit. First, they make a profit on every withdrawal. Second, we have a right to charge fines for non-payment.

Third, the Pennsylvania law allows the building association to borrow an amount not to exceed twenty-five per cent of the value of its installment stock, withdrawal value. They borrow this at five per cent to five and three-quarters per cent and loan it out at six to seven and one-half per cent, which is an additional source of profit.

Mr. Rust: I would like to know just what the borrower pays on the association plan. We know if he borrows $10,000 on the other plan and he pays off $1,000 at the end of the year, and pays 6% or 5%, he has $9,000 to begin the next year, and he knows exactly what rate of interest he is paying on the unpaid principal.

Has it ever been figured out just what net rate the borrower pays the association on the unpaid balance of the principal?

Mr. Stern: On the first mortgage we do not charge as high a rate of interest and premium as we do on the second. One thousand dollars second mortgage, twenty-five cents a share per annum, one dollar twenty-five cents, eleven dollars twenty-five cents a month; one hundred thirty-five dollars a year. One hundred thirty-five times eleven, fourteen hundred eighty-five dollars.

He pays four hundred eighty-five dollars interest on one thousand dollars for eleven years. That is about 4.4% he is paying, but you have got to allow interest to him then for the money he is paying off monthly.

Mr. Porth: Isn't it a fact that to be absolutely correct the proper way is to figure either the average amount of the principal or the average time only, and that actually the man is paying 8.8%? That is the only way to figure it to be real fair.

He either owes $500 on an average for eleven years, or he owes $1,000 for five and one-half years. If he pays $44.00 a year he is paying actually 8.8%. That is all right; I am not objecting to that.

Mr. Stern: That is wrong. He can't pay 8.8%, because he is only paying 7½% altogether.

Mr. Porth: Under your own figures you say he pays $485.00 in eleven years, which means $44.00 a year.

Life Insurance Protecting Seconds

Mr. Wm. J. Fleming (New Jersey): I would like to have Mr. Stern tell us about additional precautions on second mortgages.

Mr. Stern: Not uncommonly we have the borrower take out a life insurance policy, and assign that as additional security. We are great believers in life insurance in addition to the building and loan plan. In a great many cases where we think the risk is close, we insist on life insurance.

Detroit Uses Life Insurance

Mr. Richard Lambrecht (Detroit): I am secretary of one association that has been operating on that plan for twenty years. We figure this way, that the natural maturity in the building and loan at most ought to take about one hundred thirty-eight months, or eleven and a half years. The man who gets stock is insured individually, and his power of collection under that stock is put in a trustee, and we tell the man when he starts that it will take eighteen to twenty months longer, and that would be about thirteen years. The plan is operated this way: The first year we insure your life for $1000; the second year you reduce it to $900, and so on down to $800, and $775, and the like. The Banking Commissioner of Michigan requires that we notify the stockholders when they join that it will take that much longer. I am secretary of three associations that have insurance plans, and it operates well.

More on the Interest Rate

In reference to the percentage the borrower pays, take this thousand dollar loan, for instance. Take one hundred thirty-eight payments back to the association, bearing in mind that the borrower was advanced his $1,000 at the beginning of his mortgage loan. He is the borrower. The other man who comes in, who is not a borrower, pays $690 for his shares. If it matures in 138 months, he has paid $690.

After he has paid in $690 with interest, he has made a profit of $310. Take that away from the $690, with interest, and it will leave the cost of borrowing that money $380 for eleven and one-half years.

Mr. Stern: I was just going to say that the man who had paid off $1000, only pays off $660 to the association.

Mr. Rust: What rate of interest would he pay by the partial payment plan? In other words, could your building and loan association say, "I will loan you one thousand dollars, and charge you five percent, six percent, or ten percent, and when you pay one thousand dollars you pay interest on that principal up to a certain point, and from that you begin with a new principal?" What rate of interest would the borrower pay?

Mr. Stern: I would say a little over five percent.

Mr. Berman (Philadelphia): I have the exact figures. A man borrows one thousand dollars; he pays $5.00 principal, $5.00 interest, and $1.25 on premium, making a total of $11.25 per month. Paying that, say one hundred thirty-two months, he pays $1,495.00. He starts with the obligation of $1,000. He pays all interest and premium. He pays $495.00 for eleven and a half years.

Should he borrow from a private individual, eleven and a half years, it would be $660. He would pay total charges of $1,660.00. But, paying to the building and loan association, he only pays $1,485.00, a difference of $175.00, between paying off his obligation to the building and loan association, or paying the same obligation to the private individual.

That makes him $175.00 to go. Where did he get that $175.00? He has been a member in that association; he has received profits on the accumulation of interest on the money he paid in. That amounts to $175.00. If you deduct that $175.00, and divide it by eleven and a half years, it comes to less than two percent. Deducting the two percent which he receives, brings it down, his actual interest for the eleven years to not quite six percent, about five and three-quarters percent. (Applause.)

Mr. Porth (Milwaukee): I want to prove to the gentleman that he is wrong. (Applause.)

If that same man had only taken the money at the rate of $100.00 a year which he is saving, and put it into the savings bank, at 4%, he would have more money than that difference they are talking about amounts to.

Let them figure that out. If he had put it in the savings bank at 4%, it would amount to more than the difference.

I think these associations are the greatest things we have in this country, but why try to make the people think we are giving them something cheaper when that is not a fact? Admit it costs a little more, because you have more trouble with it. But when you say it is cheaper, you are not figuring it right. You are not allowing the man bank interest on what he would save.

Mr. Hoff (Chicago): I am a firm believer in building and loan associations, but let us get to the facts and find out just what a man pays.

The speaker refers to a loan of eleven years, when he knows it has been only a loan of five and a half years. When a man has paid back all his money in eleven and a half years, it would amount to a term of five years, and a fraction for the full amount; consequently, he has been doubling the amount of his interest.

I am a believer in building and loan associations. I have gone through this thing in days gone by, and I have figured it out, but not as it has been figured here today.

Mr. Coe A. McKenna (Portland, Ore.): I have been hearing this identical subject discussed in Portland, Oregon, the last ten or twelve years. I think it is a question of splitting hairs. If there is any other section of the country that can produce a second mortgage at the rate Philadelphia can produce it, I would like to know where it is. I know we are discounting second mortgages twenty and twenty-five percent in Portland.

More About the Hoosier Plan

Question: I believe the Philadelphia plan is all right. But I don't believe the Indiana plan is bad. I will prove it to you by a concrete example. I am from a city of 66,000, actual census report. We have over twenty millions in deposits in Terre Haute, Indiana. Our firm began in 1910, and they had $75,000 deposits. You go out and expect your directors to sell your stock. We have done away with the stock selling idea, and accepted deposits the same as a bank and trust company. We have over eight hundred thousand dollars deposited in our building and loan. If you take the Indiana plan, and organize a building and loan association in your State, you will get all the deposits you want at 6%.

We balance our pass books twice a year, July 1st and January 1st, and interest stops on the actual credit at that time. The man pays interest on what actually shows. He pays from January 1st to July 1st. If you want to get money for your financing, take the Indiana plan.

Cost Compared With Rent

Mr. A. M. Suor (Buffalo): I am interested in the difference between our two previous speakers—conservative and liberal, and what makes it possible is that in the case of one concern they are loaning eighty percent, and another fifty percent.

I agree with the previous speaker that we are splitting hairs on these small things. I would like to ask Mr. Stern this question: By comparison with the rental value in Philadelphia, say a ten thousand dollar house, what is the cost per month to the man who works under your plan, putting in two thousand dollars of his own money, giving him 6% on that, which would be $10.00 a month; paying $25.00 a month on his first mortgage, which would be $35.00, and your payments, which I believe are $33.00, which would be $68.00; what is the average rental value of that house?

Mr. Stern: Of a ten thousand dollar house?

Mr. Suor: Yes.

Mr. Stern: I should say $80.00 a month, or upward.

Mr. Suor: Then he will get his second mortgage for nothing eventually, as compared with his standing as a renter?

Mr. Stern: Yes.

Mr. Suor: And he actually gets his money?

Mr. Stern: Yes.

Mr. Suor: I want to bring to the attention of these gentlemen this idea: Both of these men are right, but you are failing to recognize the element or the factor that comes through a reasonable system of amortization that brings the carrying cost as cheap as rent. If your carrying cost is as cheap as rent, it is safe to put in money almost up to 100% of the value of the property as a loan. If that 100% isn't in excess of the rental value, it will eventually give the man his home clear. That is the Philadelphia plan, isn't it?

Mr. Stern: Yes.

Mr. Suor: That is the thing the savings banks have got to learn. They have got to come out where the people live. They have got to know what the installment man has learned through long years of experience; if he has given a man something on the monthly payment, that in the end he has got to pay for the hire of it, and you have good security.

The Interest Rate Again

Mr. Stern: I want to straighten out that matter of the rate of interest.

On the eleven year maturity, the man who pays $135.00 a year pays in $1,485.00, less loan of $1000.00, which is $485.00. But he is entitled to, and I will allow him, 6% interest, if he pays off during the course of eleven years, which is $207.00. Add to that the $485.00 and you will have $692.00, or 6.2% that it has cost the man for that money. That includes premium on the second mortgage, which we don't charge on the first mortgage.

Question: What is that $207.00?

Mr. Stern: $60.00 a year, or $660.00 for eleven years. I will give him 3% for eleven years; that is an average of 6%, $207.00. I am allowing it to him.

Mr. Porth: You are not compounding the interest?

Mr. Stern: No.

Mr. Porth: You are compounding the other.

Mr. Stern: No, I am not. He is paying monthly. In every case he is paying monthly. You can compound neither one, or compound both, which is fair.

The Rate in Omaha

Chairman Cody: Gentlemen, I wish to call upon the chairman of our Committee on Building and Loan Associations, Mr. Byron R. Hastings, of Omaha.

Mr. Hastings: I have followed the savings game and the building and loan game, for many years. I am simply a director. We in Omaha are proud of our savings and loan associations. We loan on what is known as the Dayton Plan, sometimes at 6% and sometimes at 6.6%. No fines, no premiums.

A man with $1,000 pays in $10 a month. One half is interest, and one half is principal. It is very simple, and the borrower knows just what he has to do.

I believe there is a lot of confusion in fines and premiums. Borrowers don't understand where they go. Maybe I am wrong, because I have not had any experience in that kind of work. We have three associations in Omaha; one twenty-seven million dollars, which is bigger than our largest bank, one twenty million, and one over twenty million. That is $325 to every man, woman and child in Omaha.

Today those associations loan 60% and 66 2-3% of the value or selling price of the property. We do not loan on second mortgages. Our State law will not permit us to do so.

Mr. Frank Craven (Philadelphia): Does the stockholder get any share of your profits?

Mr. Hastings: He does.

Mr. Craven: He pays 6 2-3% interest, you say?

Mr. Hastings: No, we loan at 66 2-3% of the value of the property.

Mr. Craven: I want to say I think one concrete example would be this: Take $1000 if you please, at 6%; then you take the same amount to be paid to the Building Association during that term, and you will find the rate of interest is about 5% to the stockholder in the association.

American Institute of Savings and Loan Associations

Mr. Hastings: Before many of you leave, I have one point I think will interest you all. The National Association of Real Estate Boards, together with the Building and Loan Associations and the Lumbermen's Association, are back of a movement called the American Institute of Savings and Loan Associations, which is upbuilding, or trying to upbuild, the building and loan associations all over the United States. It has been in existence about one year. Some thirty building and loan associations have already been organized, and they are getting out literature, and a course in building and loan work. This is being done by Mr. Chase of Kansas City.

The National Association of Real Estate Boards have a committee on this matter, and the National Association boards contribute, many of them, towards the support of it. I think that one of the most important things the National Association could do would be to get behind it and push it along. Mr. Lyons, I wonder if it would be possible for this division to pass a resolution, giving its support to this movement?

Mr. Lyons (Kansas City): I think you have covered the subject. There is a very exhaustive report, probably too long to read here. But it endorses the movement, and also requests that if the National Association can see its way clear, it ought to contribute some money to this movement.

I think we ought to go on record as not only being in favor of it, but we ought to show our interest by recommending that the National Association cooperate with the Institute.

(See page 39 for action on this suggestion.)

Chairman Cody: Before we adjourn, let me introduce to you a man who has done great service for the mortgage interests of this country. In Chicago they have organized the Chicago Mortgage Bankers' Association, and it includes most of the leading members of that profession.

As its president for three years, doing patiently, modestly, and quietly its work, the man whom I am about to introduce has elevated in Chicago the ethics and standards of our profession. Mr. George H. Taylor, of Chicago.

CITY PLANNING AS AFFECTING MORTGAGES

Mr. Taylor: Gentlemen, I have studied real estate from the mortgage loan standpoint for a great many years. We who loan money in that way, come to look at it from a different viewpoint than the realtor who goes out and buys and sells. I would suggest to the realtor in the small city that he try to make his real estate available for loaning purposes, and that he encourage his brethren in the business, and all the citizens to do likewise.

That means that the city—and I am speaking now of those from ten to twenty thousand—should be laid out and developed with some consistency, and not in a haphazard manner. The improvements should be put in where they belong, and not out on the prairie. They should be studied with some scientific care. Freak building should be discouraged.

I happen to represent one of the insurance companies which, next to the Metropolitan, is second to none in the United States, certainly in making loans. I represent them in Chicago, and also in Illinois, where we think we have a great field for service. That is the watchword of our company. We are sent out with the idea that that is what we are working for, to help the home owner, and render service to the people.

We have done a lot of that work. We will have three hundred and twenty-five millions at the end of 1923 loaned on city and farm property; about half and half, probably not quite so much on the farms. That sum is growing. We want to extend our service to the smaller cities. Under the experience of the companies, all the companies, at the present time, you can't go into cities under ten thousand population, and in very few of those.

We must have the best security, and we cannot loan more than sixty or sixty-five percent. As a matter of fact, we stick pretty close to sixty percent on the very high cost of labor and materials, figuring there will be some little discount in the next few years. It may or may not come. (Applause).

Address on "Housing Loans"

Chairman Cody: There is published today in the Convention "Daily Realtor," the address on "Housing Loans," which Mr. Frank Adair of Atlanta was to have read before our division. That is the only announced address which you will not hear. Mr. Adair was taken ill and operated on for appendicitis a few days before he had to leave his home.

In addition to its publication in today's "Realtor," we have arranged to have the address printed in full and you will receive a copy in the report of the proceedings. (See page 54.)

The Adair Realty Company of Atlanta was formed in 1865, at the close of the Civil War, and is, therefore, fifty-eight years old. It is said to be the oldest real estate firm in this country. All of you gentlemen from the Southeast know of the Adair Realty Company, and its standing in that section.

Bond Issue Abuses

Mr. Townley Culbertson's talk on "Bond Issue Loans," yesterday, hit some vital points. May I suggest a careful reading of his address when you receive it in printed form. (See page 77.)

Many of us have noted the abuses that have crept into the making of bond issue loans, and if we ignore them, we are shutting our eyes to conditions which we should not permit to exist. We should realize that such practices are very dangerous for all of us, and if general depression should come, the results would be damaging to the conservative, conscientious mortgage banker.

Stamp Out Idle Gossip

It is just as harmful, in my judgment, to say there is no such condition, when we know there is, as it is to peddle these stories about buying the land, erecting the building, and giving a man a bank account when they are not known to be founded on fact.

Of late, in Chicago, there have been published in the newspapers stories about the high costs of building, and this publicity has had its effect on mortgage investors. Now, if these verbal reports, based on hasty opinion, or mere hearsay, are peddled around, and we tacitly or actively encourage their peddling, we are cutting our own throats.

A gentleman's agreement was made in Chicago that whenever such a story is heard, the mortgage banker hearing the story would pin the man down, and say, "Harry, where did you get that; what property does that cover?" and endeavor to get the facts. If possible to obtain the alleged facts, he would report them to the mortgage banker in question and give him an opportunity to explain them and to justify the loan from his standpoint. Any man is entitled to a hearing.

This scandalous gossip condemning mortgage loans as a whole, is unfair. We should be just as determined to spike such lies, as we are to correct abuses on our side of the fence.

Every member of our Division should carefully read the report by our Committee on "Safety of Mortgage Securities," of which Mr. George Hemingway of Oak Park is Chairman. (See page 84.)

Costs to Borrower

We are preparing a report showing the comparison between building and loan and regular mortgage costs, in the different states and cities.

I am sure that such a comparison will be instructive, and will show that the building and loan work is handled on a modest basis, and campares very favorably with what we know as the regular mortgage.

Licensing Mortgage Bankers

There was introduced in the last Legislature in Illinois, Senate Bill 510, under which it was proposed to license mortgage bankers. That was a constructive measure, fostered by the Chicago Mortgage Bankers' Association, and by the Chicago Real Estate Board, as a substitute for a number of iniquitous bills that were introduced, vitally affecting mortgage conditions in the state, and all real estate and building interests.

Due to the good judgment of a majority of the Legislature, and to some very active work in explaining the facts of how harmful those bills would be both to labor and capital, they were not passed and, while this licensing bill was not passed, it was a step in the right direction.

I call it to your attention because some of you may be particularly interested in states where such measures are proposed. (This bill is printed on page 80.)

Investment Bankers' Association.

Mr. Culbertson, in his constructive report on Bond Issue Loans (see page 77), refers to some work done by the Investment Bankers' Association, which appointed, as some of you know, a committee on Real Estate Securities, which made a report at White Sulphur Springs in May, 1923, in which many of you may be interested. A copy of that report may be obtained by writing to Mr. Morris Fox, Chairman, Milwaukee, Wisconsin.

Also, there was a report made by that Committee in October, 1922, at Del Monte, California. Both are very interesting. They cover the replies to a questionnaire sent to their members, and while time does not permit going into the details, I want to call them to your attention, so that you may learn how the investment bankers feel about our business.

"Let him not, who is homeless, pull down the house of another man, but let him work diligently and build one for himself."

—Lincoln.

TODAY'S MARKET FOR REAL ESTATE SECURITIES

By M. E. GREENEBAUM, Sr.,
President Greenebaum Sons Bank & Trust Company, Chicago

Delivered before the members of the Chicago Mortgage Bankers Associations, October 5, 1923

The following address by one of Chicago's leading mortgage bankers is based upon conditions in the Chicago District, and will be of special interest at this time to members of the Mortgage and Finance Division throughout the country.

IT IS not at all unusual that there are periods during which the sale of mortgage securities is less active than at other times, and there are many and various causes which contribute towards this. We all know from experience that **January** and **July** are the two months of the year in which sales are largest. These are the interest paying periods with the Savings Banks, as well as dividend disbursement periods. The small investor permits his savings to accumulate between these months and does not withdraw his funds for investment so as not to lose the interest, since Savings Banks do not allow interest on funds withdrawn between said months. Also many merchants take a semi-annual survey of their business between **January 1st** and **July 1st**, and if they find that they have made money, they frequently withdraw any surplus not required in their business and invest these funds in interest bearing securities. In the Spring and Fall funds are largely employed in business in paying for merchandise. In general, however, the sale of securities is very largely derived from reinvestments of principal sums which have matured on securities already owned by the investor.

After all, this business is largely cumulative in character and the larger the volume of business upon the books, accumulated with the passing of the years, the larger the volume of reinvestments which comes to the issuing house.

The essential thing is to so take care of your customers as to insure their continued and uninterrupted patronage and friendship. It would indeed be a difficult and very limited business if one were only to have one transaction with each customer and were compelled to seek entirely new outlets for every issue of bonds or every mortgage negotiated.

Conditions Unusual at Present

The question arises, "Why is the mortgage investment business not up to normal at the present time?" To my mind there are various reasons. In the first place, never during my experience of forty-six years has there been a time when people (who formerly knew no other form of investments than Real Estate securities) have been so largely the purchasers of REAL ESTATE itself instead of bonds and mortgages as now. This is because with the present high scale of rents the return is larger and the possibility is offered, in fact the probability of securing a profit on the resale of the property. The best evidence of this lies in the fact that the resale of bonds and mortgages to the issuing house for the purpose indicated is much larger than heretofore. Also the borrowing of money on these securities for the same purpose of buying real estate is much more frequent than usual. These funds are borrowed with the hope and expectation that the property will be resold shortly at a profit and the operation repeated. Ultimately, a large part of the funds so employed at this time will find its way back again to Bond and Mortgage investments, and that will be when some recession in the scale of rentals now obtainable occurs. Considerable sums which would ordinarily be invested in mortgage securities have also been employed in the purchase of homes and vacant lots.

Loan Houses Have Increased in Number

Now while there is no doubt that the number of investors in Real Estate bonds has increased very materially during the past five years, it is also true that the number of those who have engaged in this line of business during the same period has also increased very largely. Time was when this class of business was largely centralized down town. The same condition prevailed as regards the negotiation of loans. Now, however, every outlying or neighborhood Bank and every Real Estate Agent, performs both functions of serving the borrower as well as the investor. This business has shown such evidence of success financially on the part of many of those who have been engaged in it for some time, as to prompt others who had scorned the idea of Real Estate Bonds to enter the field and sell these securities to their old clients and to as many new ones as possible. This naturally has the effect of diverting some funds which would otherwise have been invested through former channels.

Some business is secured to new houses in the field by offering high rates of interest, liberal discounts and commissions, and such other inducements as to make the temptation to buy almost irresistible.

Destructive Publicity

The market for the sale of Real Estate Securities is also influenced unfavorably to some extent, by the publicity that has been given about the extremely high cost of building, the exorbitant rents demanded and the possibilities of a fall in the value of real estate when building becomes cheaper and rents are lowered. While there is little probability of much reduction in the cost of building or of any substantial lowering of rents, the timid investor is always inclined to give credence to statements forecasting an unfavorable outlook. This is not surprising since the money to be invested in most cases represents hard work over a long period of years, and the timid investor feels that he cannot afford to take even the minimum of risk and prefers to keep his money in a Bank or Safe Deposit Box or hidden away at home, rather than to invest and feel any uneasiness about his investments.

We must also not lose sight of the fact that during the past year an enormous amount of tax free municipal bonds has been offered and sold in this market which has diverted funds which ordinarily would have gone into Real Estate securities.

All this to emphasize the fact that even with the increased opportunities of securing bond issues and mortgages on account of the great activity in the building industry, the agencies for obtaining funds for building purposes have increased out of measure with the increase in the number of investors, so we find for the reasons indicated that the **INVESTMENT** business is not up to normal in Chicago.

The number of Trust Deeds filed has not decreased to any appreciable extent but the number of those engaged in making loans has increased to a great extent.

Farm Loans

As for Farm Loans, the attitude of the Government is to assist the farmer in securing at all times the funds which he requires at a low rate of interest and upon easiest terms in order to encourage the tilling of the soil and keep him on the land. Rates of interest on farm loans upon good lands in best districts have always been as low and generally lower than loans on city property. No legislation could be enacted which would apply equally and equitably to both city property and farms. Farms are valued upon the productivity of the land and its location. Improved city property is valued upon its location and the rentals obtained. A seventy-five per cent loan upon well located, well rented city property is safer than a fifty per cent loan upon unproductive land or land with a crop failure or with prices prevailing for crops which yield no reasonable return to the farmer for his labor. The rise and fall in value of farm lands have been much greater than they have ever been in city property. The former depends upon the outcome of the farmers' efforts, while city property is ever made more valuable by the constantly increasing population and only decreases occasionally in one district or another by reason of unusual circumstances.

National legislation exempting from Federal taxation a certain fixed amount of real estate mortgage investments in the hands of one owner would do much to stimulate the sale of these securities but no national law attempting to regulate this class of investments could be passed but that would conflict with the practice and process of making loans in the various states. The conditions involved in making farm loans are so different than those attending the making of loans upon city property as to preclude the possibility of any co-operation between organizations which are respectively engaged in one or the other of these enterprises.

Outlook Is O. K.

There is nothing discouraging about the future of the Bond and Mortgage business in Chicago, although the present conditions may not be entirely satisfactory. The fact is we are merely disappointed that we can't make all of the loans we would like to make and dispose of them as fast as we could get them. No business is always equally prosperous at all times. There are good periods and slow periods. In every line of mercantile business sometimes sales are slow, sometimes collections are bad, sometimes losses are large, and sometimes they have labor troubles and sometimes they fail, but in the aggregate the majority are fairly successful in making a living and saving something besides. There is no better place in the world than right here in Chicago to develop the bond and mortgage business, if it is conducted on a strictly legitimate basis, if the size of the loan is not influenced by the size of the commission, and if we always keep in mind the interest of the confiding customers who entrust us with the investment of their funds. Our oldest customers should be our best ones, those whose confidence we have retained through honesty and fair dealings, and who know that their interests are properly safeguarded at all times. I know that this organization, founded on mutual co-operation and upon high principles, does not countenance any actions which might jeopardize the good reputation of **Real Estate Bonds and Mortgages** and your greatest effort must be to see that nothing be done by anyone to cause these securities to fall into disrepute.

If a high standard is maintained, there need be no fear but that in due course this business will resume its normal conditions in spite of the various causes enumerated which have a tendency to distribute the business into numerous channels.

There's room enough for all of us to develop and we must do so along the right lines.

BOND ISSUE LOANS

TOWNLEY CULBERTSON, Chairman
Vice-President, Commercial Trust Company, Kansas City

CHAIRMAN CODY: The first speaker today is Vice-President of the Commerce Trust Company of Kansas City. As mortgage correspondent of leading insurance companies, as the representative of a host of private investors, he is in charge over $38,000,000 of mortgage funds. I take great pleasure in presenting to you Mr. Townley Culbertson, who will speak on the subject of "Bond Issue Loans."

Chairman Cody: The first speaker today is Vice-President of the Commerce Trust Company of Kansas City. As mortgage correspondent of leading insurance companies, as the representative of a host of private investors, he is in charge over $58,000,000 of mortgage funds. I take great pleasure in presenting to you Mr. Townley Culbertson of Kansas City, who will speak on the subject of "Bond Issue Loans."

Mr. Culbertson: In this maze of organization, today, there is hardly a bunch of folks so little organized, and who work so poorly in the harness, as real estate loan men. I can say that, being one myself.

Need for Team Work

They seem to feel, in too many instances, that every loan they have made is a good loan; every loan a competitor has made is a bum one, unless it be, at maturity, they take up the competitor's loan, and increase the amount of it, and immediately it changes its bum qualities to good ones.

If this division can only bring real estate loan men closer together, and develop a spirit of closer co-operation, it will serve a great purpose, I am sure.

Prestige May Be Impaired

Now, gentlemen, for my subject, "Bond Issue Real Estate Loans." I believe, and I think most of you will agree with me that there are evils with regard to these loans that, if not corrected, will greatly impair the fine position that real estate, and real estate securities, hold in the minds of most American people.

If that is true, and that is a very strong statement, then the things I have to say in these few minutes' talk certainly will interest every real estate man, and should likewise, to nearly the same extent, interest every realtor in this country.

Excessive Loans

You will doubtless all agree that there is an alarming tendency today to loan amounts far in excess of what had heretofore been regarded as safe and conservative. The ability to borrow such large sums of money by men of a speculative turn of mind, has likewise been largely responsible for the most tremendous building boom that this country has ever known.

Developing Bond Buyers

Following the Liberty Bond sales of the war, there developed in every community a new and largely increasing number of investors who bought bonds of some kind, and they naturally, most of them, turned to real estate bonds as the form of security with which they were most familiar and on which they looked with most favor, although construction was greatly retarded by the war.

Costs as Affecting Loans

But construction is now experiencing, as you all know, additional costs, both in material and labor, after many lines have had sharp declines. It seems only reasonable that in time there will be declines from this high period. Whether this is assured or not, it behooves us, loaning other folks' hard earned money as we do, to take into consideration the excessive costs, if there is a reasonable probability that this decline will follow.

Now, I don't want to be misunderstood on this matter. From this platform, yesterday, Mr. Stabler talked to you about values, and he is a man with far better judgment about the matter than any member of our committee, and I certainly share those views with him. But Mr. Stabler is not loaning the percentage of those high costs that are being loaned in bond issues. The thought I wished to particularly bring to you at this moment is the dangerous combination of high costs and a high loan. It would naturally seem that if there were a tendency toward high costs, there would be a tendency to hold down the loan. But, as you all know, in practically every community in our land, the tendency has been exactly the other way.

Percentage of Increase

The most reliable figures I have been able to obtain on the subject of present costs, show that up to March of this year they exceeded those of 1914 by 196%. Going a little further back, they equal nearly 335% for material, over 1900, and labor 296% over 1900.

We often hear the statement that labor costs are higher than material, and possibly it is true in a sense that labor costs enter so highly in the production of material. But labor cost has not increased to the same extent as material. It is easy to see that a loan of 70% on 1914 values might easily develop into the ownership of a piece of property, or even ownership with a considerable loss on that piece of property.

Does Present Income Justify Excess?

The committee finds any number of instances, as you undoubtedly have in your own minds, of loans not only 70% of what a building would cost today, but 80% and 90%. We found one loan of 120% of what the building would cost—a very large loan at that. The justification for these loans in the minds of the folks who happen to be making them, or in anyone's mind who attempts to justify them at all, seems to be the income these properties produce.

There is a certain type of construction today the committee finds which shows a rate of income in excess of 25% of the cost. Possibly the average in this type would be 15% of the cost, as against figures showing possibly 10% in pre-war days.

A monthly, or semi-annual, or annual reduction of these loans is, of course, of material assistance. But who can say how long these rents will keep up, and how long these incomes will keep up? We certainly have no right to make real estate loans on the basis of income alone, and to discard the practice and rule which has been in vogue in real estate loan making for practically all time, of loaning a given per cent on the physical value of the property. Instead of incomes tending to hold down our values, and using them as a check, we find them used as a means to justify larger valuations. Just the reverse, it seems to me, to what has always been the theory in making real estate loans.

A Reliable Survey

During the month of May of this year, there were some important meetings on this subject, participated in by bankers, real estate men, loan men, and material men, which reviewed the situation in this country with regard to the cost and rate of construction that was going on, with deep concern, not only for the interests involved, but for the interests of the country at large. They made a very comprehensive survey of this situation, and they found, among other things, that projected construction to date this year exceeded the unheard of high figures of 1922 by forty per cent. That is, the figures thus far for 1923, of buildings projected and under way, were forty per cent greater than they were for 1922, which, as you know, was by far the largest year of record.

In making a survey of materials, they found that common brick stock was 16% lower than it was the same time in 1922, and that the demand for that stock was 40% greater than it was at this time last year. They found as to lavatories, and other sanitary ware, for which there is such a demand in building construction today, that the available stocks were 40% lower than they were at this time last year, and that the demand was 78% greater than it was this time last year. They, of course, found skilled mechanics were being paid $15 to $18 a day for labor.

I don't mean to be understood as criticizing material men. That is the inevitable law of supply and demand, as Honorable Theodore Burton explained the other night so satisfactorily.

Misleading Advertisements

The present high costs, and the present high percentage of loans on these high costs, important as they are, are not the only items your committee has found to be serious in connection with the making and marketing of real estate bonds today. There is a very strong practice among some houses over our land to write a circular, or put advertising in the paper, and sell bonds before the building is ever started, and not to say in the circular, or indicate in any way from the cut, or sketch, that the building is not there.

Segregate Construction Funds

There is the equally bad practice of placing those funds, when they are received, with other general funds of the company, and even if the advertisement does state that it is a construction loan, and that the building is not started, or is not completed, it is equally bad practice. Certainly every one would agree that those are trust funds, should be deposited separately, and should be used for the specific purpose of completing that particular building.

Should Guarantee Completion

The committee believes we should go further in that matter by saying that while the house, of course, is not expected to guarantee the bond, that they should guarantee that that building will be completed, and that the bills incidental thereto will be paid, and as a protection to them they should take some adequate bond to insure the completion of that building.

Omitting Valuations

Then, there is a growing tendency in bond issue loans not to state in the circular, either in the heading or in the body of the circular, what the building is worth, or what the building is to cost. We have had brought to us any number of circulars which stated the expected income, but in no place in those circulars would they state what the building would cost, or what it was worth. In some cases they said it was largely in excess of the amount of the loan. If any one knows what that means, I wish he would tell me.

Leasehold Loans

Then there is the much talked of subject of leasehold loans. Of course they make leasehold loans. They make them in Cleveland, and have done so for many years. But I notice in going down to one of the banks that makes a specialty of this sort of loans, they very prominently display in their lobby a sign, "Leasehold Mortgages." Of course, the general, accepted theory of a first mortgage is that it is a first mortgage on the land and on the buildings. Your committee thinks this reference to the leasehold feature should be very clearly stated.

Should Disclose Personal Interest

Then there is a tendency for folks to offer loans on properties in which they themselves are financially interested, and to not state in the circular that they are interested. In that way, they are on both sides of the fence. Now, certainly, there is no principle of ethics more firmly settled than that. There is no principle of ethics that realtors would agree upon more thoroughly than that, in a sales transaction, all such facts should be disclosed, and there is no reason why a man offering real estate loans should be governed by any other rules.

What Is Best Course?

Now, gentlemen, if you agree that this evil does exist, and to the extent that it does exist, and if you realize and fully appreciate to what extent it affects American industry, aside from our own business, certainly you will want to do something about it. Everyone with whom we discussed the matter, agreed on that. The question is the mode of changing it.

Some Changes for Better

Since the Committee has had this matter up first, there has been some decided changes for the better in this situation. The papers in one of the larger cities in our country have begun to call folks' attention to the very things I am talking about, and it has had a marked tendency to reduce the percentages that are being loaned.

Value of Publicity

Someone had the temerity to say that there seemed to be no bottom to the stock market, that people seemed to get scared on account of the large amount of securities issued. Certainly the banks are taking cognizance of that. The American Bankers Association has a committee working along those lines. It certainly seems that publicity on such subjects is the best means to the end.

Of course it is the proper thing to talk about boosting your real estate values, but there is no one who loans money on real estate, and particularly there are not many men in the sales end who do not look at it from a more far-sighted view than the immediate money folks will get into their community. They say, "Of course we know those fellows are not doing what they should do, but they are bringing a lot of money into our town."

There is nothing worse a community can do than to over-value and get more buildings than they can take care of. (Applause.)

(Further reference to Bond Issue Loans on pages 72, 80, 84, 105.)

LICENSING MORTGAGE BOND HOUSES

EARLE G. KRUMRINE, Chairman
President, E. G. Krumrine and Company, Chicago.

SO far as I can learn there are practically no laws in force in any of the States to license mortgage bond houses or brokers. The Chicago Real Estate Board, in conjunction with the Chicago Mortgage Bankers' Association, prepared and caused to be introduced in the State Senate on May 16, 1923, a bill for an act in relation to the sale of bonds secured by mortgages or trust deeds on real estate.

Provisions of Proposed License Bill

This bill provided, among other things, that on and after January 1, 1924, no person should sell or act for another in the sale of bonds or notes thus secured as aforesaid (with certain exceptions) unless authorized so to do by certificate of registration issued by the Department of Registration and Education to him personally, and that the person desiring to obtain such a certificate should make application therefor, and present such proof as to his honesty and integrity as the department might require.

The bill was prepared with considerable care, and was designed to protect the mortgage bond business, and the public, against the operations of dishonest and fraudulent brokers. We urged its passage, and with the co-operation of certain members of the State Senate brought about its favorable consideration and passage by that branch of the General Assembly.

During the first week of June, having been passed by the State Senate, the bill was transmitted to the House of Representatives and referred to the Committee on Efficiency and Economy. Owing to the large number of bills before the Legislature, and because of the late date upon which our bill was introduced, this bill was never reported out of the committee, and, therefore, failed to pass the House.

Bill to Be Introduced Soon

We no doubt will reintroduce this bill again at the next session of the Legislature, at which time we hope to have it passed. This bill is known as Senate Bill No. 510; was introduced in the Fifty-third General Assembly by Senator Dailey on May 16, 1923. This bill is printed herewith.

There are 16 states at the present time having Real Estate License Laws. These laws, however, are for the real estate broker and not for the mortgage loan or bond broker. The excellent results obtained under the Real Estate Broker's License Law, which has corrected many abuses, would indicate that any law licensing mortgage brokers patterned somewhat after the real estate broker's law would eliminate many of the abuses in the mortgage loan business.

Mortgage Men Should Draw Bills at Once

There is no question but that within the next few years there will be bills introduced in the different legislatures throughout the United States to regulate and control the sale of mortgages and bonds on real estate. These bills will be introduced by persons wholly unprepared and uninformed on the practical side of the real estate loan business. The only way to prevent this will be for the mortgage loan broker to take the initiative, draw and introduce a constructive bill in the different State Legislatures, as has been done in the State of Illinois.

A Bill

For an Act in relation to the regulation of the selling of bonds and notes secured by mortgages or trust deeds on real estate or leaseholds, and providing penalties for the violation thereof.

Section 1. After January 1, 1924, no person shall sell or act as agent, broker or solicitor for another in the sale of bonds or notes secured by mortgages or trust deeds on real estate or leaseholds, unless he is authorized so to do by a certificate of registration, issued by the Department of Registration and Education to him personally; provided, however, that nothing in this Act contained shall prohibit the sale by any person of all the notes or bonds secured by a mortgage or trust deed in a single sale to a single purchaser.

No association, copartnership or corporation shall engage in such business unless every member or officer thereof who actively participates in such business is so registered and unless every employee who acts as a salesman of such bonds or notes for such association, copartnership or corporation is so registered.

Sec. 2. Every person who desires to obtain a certificate of registration shall apply therefor to the Department of Registration and Education in writing, upon blanks prepared and furnished

by said department. Every application shall contain proof of the honesty, truthfulness and integrity of the applicant, and shall be verified under oath by the applicant. The department may require such other proof as shall be deemed desirable as to the honesty, truthfulness and integrity of the applicant.

The Department of Registration and Education is expressly vested with the power and authority to make, prescribe and enforce any and all such reasonable rules and regulations connected with the application for any certificate as shall be deemed necessary to administer and enforce the provisions of this Act.

License to Sell Mortgages

Sec. 3. The Department of Registration and Education shall issue to each applicant entitled thereto, a certificate of registration in such form and size as shall be prescribed by the department, the person to whom such a certificate shall be issued being hereafter designated "registrant." This certificate shall show the name and address of the applicant, and shall have imprinted thereon the seal of the department, and in addition to the foregoing, shall contain such matter as shall be prescribed by the department. Every registrant shall maintain a place of business in this State, and it shall be his duty conspicuously to display his certificate in his place of business. In case he maintains more than one place of business in this State, a duplicate certificate shall be issued to such registrant for each branch so maintained; provided, a single fee of One Dollar ($1.00) in each case shall cover all duplicate certificates for each branch office.

Notice in writing shall be given to the department by each registrant of any change of principal business location, whereupon the department shall issue a new certificate for the unexpired period without charge. A change of business location without notification to the department, and without the issuance by it of a new certificate, shall automatically cancel the certificate theretofore issued. The department shall prepare and deliver to each registrant a pocket card, not larger than two and one-fourth inches in width and three and three-fourths inches in length, which card among other things shall contain the name and address of the registrant, and shall contain an imprint of the seal of the department, and shall certify that the person whose name appears thereon has been registered by the department pursuant to the provisions of this Act. The matter to be printed upon each such pocket card, except as above set forth, shall be prescribed by the department.

Sec. 4. The original registration fee for each registrant shall be $10.00, and the annual renewal fee shall be $5.00; provided, that where one member or officer of an association, copartnership or corporation shall have paid an original registration fee of $10.00 or a renewal fee of $5.00, the fees payable by each other member or officer of such association, copartnership or corporation to whom a certificate of registration is issued shall be $2.00 for the first registration fee and $1.00 for the renewal fee.

Each registrant who continues in active practice shall annually, during the month of October, renew his certificate of registration and pay the required annual renewal fee. Every certificate of registration which has not been renewed during the month of October in each year, shall expire on the first day of November in that year. A registrant whose certificate of registration has expired, may renew the same only upon the payment of a registration fee equivalent to the fees herein prescribed for the initial registration.

In the absence of any reason or condition which might warrant the refusal of the granting of a certificate, the department shall issue a new certificate for each ensuing year upon receipt of the written request of the registrant and the annual fee therefor as herein required.

Sec. 5. It shall be unlawful for any person not a registrant to accept a commission or valuable consideration for the perfomance of any of the acts herein specified to require registration, except guardians, administrators, executors, receivers or other persons acting in like capacity appointed by a court of competent jurisdiction.

License May Be Revoked

Sec. 6. The department may, upon its own motion and shall upon verified complaint in writing of any person, provided such complaint, or such complaint together with evidence, documentary or otherwise, presented in connection therewith, make out a prima facie case, investigate the actions of any registrant, and shall have the power to suspend for a period less than the unexpired portion of the period for which a certificate of registration shall have been issued, or to revoke or refuse to renew or restore any certificate under the provisions of this Act at any time where the registrant has by false or fraudulent representations, obtained or sought to obtain, a certificate of registration, or for any one or more of the following causes:

(a) Failure to maintain a place of business or to display his certificate, as required by section 3 of this Act;

(b) Making any substantial misrepresentation or false promise likely to or intended to mislead, deceive or defraud;

(c) Failure to account for or remit any moneys coming into his possession which belong to others;

(d) Paying a commission or valuable consideration to any person for acts or services performed in violation of this Act;

(e) Conviction of a felony;

(f) Any dishonest or fradulent conduct in connection with the business regulated by this Act; or

(g) Any other conduct whether of the same or of a different character from that hereinabove specified which constitutes dishonest dealing.

This Act shall not be construed to relieve any person from civil liability or criminal prosecution under the general laws of this State.

Circuit Court to Confirm Suspensions

Sec. 7. The department shall, before suspending or revoking any certificate or refusing to issue or renew or restore any certificate, and at least ten days prior to the date set for the hearing, notify in writing the holder of such certificate or the applicant therefor, of any charges made, and shall afford such party an opportunity to be heard in person or by counsel in reference thereto. Such written notice shall be served by delivery of the same personally to said party, or by mailing same by registered mail to his or its last known business address. The hearing on such charges shall be at such time and place as the department shall prescribe. The department shall have the power to subpoena and bring before it any person in this State, or take testimony of any such person by deposition with the same fees and mileage, in the same manner as prescribed by law in judicial procedure in courts of this State in civil cases. If the department shall determine by the report in writing of a majority of the Committee provided for in Section 11 of this Act that any registrant is guilty of the violation of any of the provisions of this Act, said certificate shall be suspended or revoked, or issuance, renewal, or restoration thereof refused, as the case may be; provided that no certificate shall be suspended or revoked or renewal or restoration thereof refused, as the case may be, until the Circuit Court of the county where the registrant resides, and, if a non-resident, then the Circuit Court of Sangamon County, shall enter judgment affirming such finding of the department. The department shall, within ten days after making such finding, file with the Clerk of said Circuit Court, a certified copy of the finding of the department and a full record of the proceedings had before the department, including a transcript of the testimony, together with all exhibits introduced and considered by the department. The department shall within five days thereafter serve written notice upon the registrant, either personally or by registered mail properly addressed to the last known address of the registrant, of such filing of the proceeding, and shall file a copy of such notice with the Clerk of said Circuit Court, and the proceeding shall thereupon be docketed and tried as expeditiously as practicable and without formal pleadings. Such hearing shall be upon the transcript of the testimony, together with the exhibits introduced and considered by the department, and such other or additional evidence as may be introduced by the parties to the proceeding. Upon hearing such proceeding the Court shall enter judgment, either affirming or setting aside the finding of the department, and the same shall thereupon become effective.

Sec. 8. Any Circuit Court or any judge of a Circuit Court, either in term time or vacation, upon application of the applicant, registrant or of the Department of Registration and Education, may, by order duly entered, require the attendance of witnesses and the production of relevant books and papers before the Department of Registration and Education in any instance relating to the refusal, suspension or revocation of certificates of registration. Upon refusal or neglect to obey the order of the Court or Judge, the Court or Judge may compel by proceedings for contempt of court obedience of its or his order.

Non-Residents Admitted

Sec. 9. A non-resident of this State, other than a corporation not qualified to do business in this State, may become a registrant by conforming to all of the conditions of this paragraph and this Act. Every non-resident applicant shall file an irrevocable consent that suits and actions may be commenced against such applicant in the proper court of any county of this State in which a cause of action may arise in which the plaintiff may reside, by the service of legal process on the Director of Registration and Education, said consent stipulating and agreeing that such service of such process on said Director shall be taken and held in all courts to be as valid and binding as if its service had been made upon said applicant in the State of Illinois. In case any process mentioned in this Act is served upon the Director of Registration and Education, it shall be his duty to forward a copy of the process by registered mail to the office of the applicant against whom said process is directed.

"Black List" to Be Published

Sec. 10. The department shall at least annually publish a list of the names and addresses of all registrants registered by it under the provisions of this Act and of all persons whose certificates have been suspended or revoked within one year, together with such other information relative to the enforcement of the provisions of this Act as it may deem of interest to the public. One of such lists shall be mailed to the county clerk in each county of the State and shall be held by said county clerk as a public record. Such lists shall also be mailed by the department to any person in the State upon request.

Sec. 11. The department shall exercise the powers provided for in Section 7 of this Act only upon the action and report in writing of a majority of a committee composed of three men, designated from time to time by the Department of Registration and Education to take such action and to make such report. No person shall be eligible to serve upon said committee unless his principal vocation for a period of at least ten years prior to the date of his appointment shall have been that of the sale or dealing in mortgages or notes or bonds secured by mortgages or trust deeds on real estate.

Sec. 12. If any section, subsection, clause, phrase or requirement of this Act is for any reason held to be unconstitutional, such decision shall not affect the validity of the remaining portions of this Act. The Legislature hereby declares that it would have passed this Act, and each section, subsection, sentence, clause, phrase and requirement thereof irrespective of the fact that any one or more sections, subsections, sentences, clauses, phrases or requirements be declared unconstitutional.

Fines For Violations

Sec. 13. Whoever violates the provisions of Section 1 of this Act or engages in the business described in that section after his certificate of registration has expired or been revoked, shall be deemed guilty of a misdemeanor, punishable by a fine of not less than One Hundred Dollars ($100.00) nor more than One Thousand Dollars ($1000.00) or imprisonment for not more than six months, or both. All fines collected under the provisions of this Act shall inure to the Department of Registration and Education.

Sec. 14. The provisions of this Act do not include or apply to the sale of bonds or notes of railroad companies or of any public service corporation, or governmental or quasi-governmental bonds.

Sec. 15. Nothing in this Act shall be so applied or construed as to nullify, supersede or otherwise render invalid or inoperative, any law of this State now in force or hereafter enacted to regulate the sale of securities within this State.

"There is no better security in the world than a high-grade Real Estate Bond."
—Moody's Investment Service

INFORMATION OBSCURED

SAFETY OF MORTGAGE SECURITIES

GEORGE R. HEMINGWAY, Chairman, Oak Park, Ill.

ANIMATED by the spirit of thrift, an individual or a family saves. Earnings are satisfactory. Savings increase. But thrift unassisted is a slow process of accumulation. So investment comes into consideration.

Then five leading questions must be answered in the affirmative if the investment is to be regarded as ideal:

Will the principal be secured throughout the term of the investment?

Will the yield be adequate, consistent with the safety?

Is regular payment assured both of yield and of principal at maturity?

Will there be a public service or a community benefit through this investment in addition to the personal advantages?

Will the investment prove profitable with a minimum of personal attention?

If the answer to all these questions is "Yes," it is an ideal investment. And no investment transaction known provides as comprehensive an affirmative as the mortgage security.

Would that the investing public nationally and internationally could gain the suggestion, the inspiration, the proved facts which have reached your Committee on Safety of Mortgage Securities from every point of the compass. Hundreds of years of combined experience are recorded in the correspondence we have received. Billions of dollars are represented in the transactions which members of our national organization have mentioned. And in the tabulated opinion which your Committee has assembled, there is almost a miraculous repetition of the phrase "Not a penny lost to an investor."

While primarily our interest rests in the welfare of the investor, the safety of mortgage securities is distributed among four fields:

Safety for Investor

He is protected by the permanency of land and the value of buildings thereon; he is protected by adequate insurance on the latter, and in addition he holds the note of the maker whose property secures the note.

As the holder of all the security there is in the property, the mortgagee may foreclose—if this becomes necessary—and secure full settlement within a reasonable time by the sale of the property.

When the mortgage is drawn by a trustworthy realtor or banking house, the legality of mortgagee's title is assured. Under the same circumstances an accurate valuation is made so that a proper relationship may be established between property value and amount of loan.

Through the fixation of yield as one of the terms of the loan, the yield does not fluctuate.

Since the rate of interest is usually set at 5½ per cent to 7 per cent, the income is satisfactory when considered in relation to the fully secured investment.

With the duration of the investment established, ordinarily not less than three years, and usually five to ten years, the investor faces no hazard of being forced frequently to find a market for reinvestment. And the term of the mortgage is not so long that market rates of interest increase and thus occasion a potential loss. Such terms of years as are mentioned are sufficiently brief, too, as not to embarrass the holder of the security by loss should he find it necessary to sell his security quickly.

Certainty of income is assured by the terms of the mortgage, which enable the investor to press his claim should such an unusual step become necessary.

A mortgage security, being a recorded document, is not subject to loss or inconvenience through fire, theft, or loss.

An investor in first mortgages on homes in his own neighborhood or near enough to permit him to examine the properties offered for security, faces no chance whatever because he has his own judgment and opinion to fortify that of the realtor through whom he deals.

While 60 per cent loan on land and buildings is practically 100 per cent assurance against loss, assurance is immeasurably increased when the security is a homestead, which, in reality, is a "moral security," guaranteeing payment of interest and principal notes when due and the fulfillment of all obligations to the investor without loss or trouble. Not only is the element of family and neighborhood pride involved, but the owner regards foreclosure as a supreme disaster,

and all members of the family assist in making good the obligation to the investor should sickness, misfortune, business failure, crime or divorce proceedings occur. Under such circumstances, there is practically always opportunity to sell the property without foreclosure, the owner obtaining his equity and the investor's money being in no way disturbed, the payment of interest and principal notes continuing on schedule.

Safety for Mortgagor

There is an influence here which opens another phase of the general safety of the mortgage security. The person obtaining the loan does so on the basis of a predetermined loan duration enabling him to arrange for repayment on a definite budget plan.

In the preliminaries to obtaining the loan, the mortgagor also benefits through a trustworthy appraisal of his property.

Whether or not he is a believer in adequate insurance, the making of a mortgage insures him the complete protection which he may not have enjoyed before.

Safety for the Realtor

Mortgage securities are of such a dependable character, the realtor handling them gains in prestige and influence through being the source of so certain a security.

When his appraisals are accurate and his loans are made with a full appreciation of the moral hazard, he benefits through an increasing esteem on the part of investors through promptness of payment of interest and principal.

He represents a single responsibility because he usually both makes the appraisal and sells the security, thus becoming the sole intermediary between mortgagor and mortgagee. And as he discharges this responsibility, fully and satisfactorily, his authority and reputation increase.

Safety for the Community

Investment in mortgage securities presupposes community betterment. Individuals are enabled to occupy better homes and apartments. Business is enabled to house itself more economically and conveniently in stores and offices.

Hotels, theaters, garages, warehouses, etc., are added to the community field.

Factories and industrial plants are established.

Methods of Insuring Safety

In summarizing the information which your Committee has been able to assemble, it seems that the methods of insuring the safety of mortgage securities can be reduced to five:

Conservative appraisal.

Limiting the number and total amount of loans to an individual.

Limiting the loan to 50 or 60 per cent of the property valuation.

Exercising sound judgment as to the moral hazard involved.

Giving first consideration to the security itself and regarding the compensation as wholly secondary. This latter point is aptly phrased by one correspondent, who said

". . . the safety of mortgage securities rests upon the man in the business. If all men in the mortgage investment business considered the commission secondary to the security, we would have fewer foreclosures, which by itself would result in a higher degree of confidence in mortgage securities by the investing public."

Making a Safe Bond Issue Loan

Another correspondent interestingly outlined his method of gaining safety through the appraisal, saying that "our appraisals are based on the factors of land and structural value and rental income value. These two factors must agree. We do not allow land and structural value to exceed rental income value as found by us. In reaching these values we consider the fact that cost of building and actual rentals have increased more than 100 per cent in the last seven years. In determining structural values, we depreciate actual building costs about 20 per cent.

For example: An apartment building which costs today 36 cents a cubic foot we would estimate at about 30 cents a cubic foot.

In determining rental income values, we discount the present rentals 25 per cent. For example: A building to rent for $16,000 would be considered by us as having a stabilized gross rental over a period of the next ten years of about $12,000.

We consider in case of a normal building (apartments) that 60 per cent of that stabilized income value should be the net income. In this case that would be $7,200. Capitalized on a 10 per cent basis, would give a rental income value

to the property of $72,000. On this valuation we would loan up to 70 per cent, which would be a bond issue loan of about $50,000. This loan would be amortized in semi-annual payments of about $1,500 each, beginning one year from date of the bonds. The loan would be for seven or more years to ten years. The present interest rate charge would be 6½ per cent, and the commission charge 6½ per cent for seven years; 7½ per cent for ten years."

Other Methods

Other experiences bearing on methods of payment of principal and interest are recorded by correspondence showing a variation in attitude. An investment security house, for example, points out that it believes "the greatest security we have in the making of bond issue loans, particularly aside from the matter of loans being of a reasonable amount, is the matter of monthly deposits . . . to meet the payments of principal and interest as they mature."

"I think," says our correspondent, "this should be absolutely required of every borrower so that the money will not be used for other purposes and payment dates find no funds on hand to meet the requirements."

A southwestern bank declares itself as specializing "in first mortgage real estate loans on a monthly repayment basis, which we feel is a better plan than a one, three, or five year straight loan, in that the actual loan is being reduced monthly, offsetting possible deflation as well as depreciation."

Another mortgage loan firm points out that "we insist always on an annual reduction of principal of not less than 5 per cent of the amount of the loan. We prefer to have these payable semi-annually and in a great many instances insist on a 7 per cent annual reduction."

An eastern firm says, "We usually make mortgage loans for an average of three years, with small payments on account of the principal each interest date. We collect interest for clients free of charge, but we charge the borrower when the loan is made, being a sum sufficient to cover our charge for making the loan and looking after it for three years."

Yet another firm reports the following classification of loans, interest rate 6 per cent:

"Straight five-year loan, interest payable quarterly, giving the borrower the privilege of paying in even hundreds any amount or all of the loan at any interest period.

"Five-year loan with not less than 10 per cent payable annually on the principal for the first, second, third and fourth years, balance due the fifth year.

"Five-year monthly payment loan which leaves a balance of about two-thirds of the principal due at the end of the fifth year.

"The prettiest loan we have been able to get hold of is a monthly payment loan that runs over a period of 142 months on which the borrower pays $7.00 per month per thousand on the principal plus interest on the unpaid balance. This pays out at the 142nd month."

"In many cases of bond issue loans," writes an informant, "wherever we deem it necessary we require monthly deposits of one-sixth the next semi-annual principal and interest maturity, so that we receive from the current rentals from month to month the share which should be appropriated for the fixed charges of the bond issue mortgage indebtedness."

Statistical Proof of Safety

Were there not a wealth of unanswerable argument pointing to the safety of mortgage securities, a mere statistical presentation in itself should carry pronounced conviction. It is somewhat unfortunate that the work of your Committee was necessarily begun too late to permit many of our members to search their records for exact and tabulated statements.

For purposes of this report, however, we are glad to include such definiteness of statement as has been available and we are also taking the privilege of reproducing that admirable compilation made by Mr. Hiram S. Cody in 1922. It seems most fitting that even in the face of repeating the information to those of our members who already have it on file, the figures of Mr. Cody's report be included in the findings of your Committee on the Safety of Mortgage Securities. We reproduce Mr. Cody's table entire, in support of his preliminary statement that "Safety and yield considered, first mortgage real estate securities purchased through an experienced and responsible organization, are the best of all investments."

Record of Real Estate Mortgage Investments by 28 of the Leading Mortgage Banking Organizations of Chicago.

(From data supplied by the mortgage bankers to the Chicago Trust Company during May, 1922.)

Organization	Years Experience	No of Loans	Total Amount Loaned
American Bond & Mtg. Co.	41	9,950	$ 98,500,000
Brooks, Robert E. L.	25	2,213	4,898,950
Broomell Bros.	28	3,148	8,253,500
Central Trust Co.	30	2,000	30,000,000
Chicago Trust Co. and Arthur B. Cody & Son	43	4,330	34,543,622
Cosmopolitan State Bank	30	129	1,229,750
Franklin Trust & Savings Bank	15	550	4,000,000
Giesecke, W. H.	20	1,400	2,500,000
Lake View State Bank	11	408	2,423,254
Lawndale State Bank	20	2,042	5,150,000
Noel State Bank	15	3,175	9,303,550
Pauling & Co., E. G.	40	10,100	60,100,000
People's Stockyards State Bank	35	3,300	12,700,000
Ritchie Bond & Mtg. Co.	25	61	2,400,000
Schneider & Co.	35	3,000	7,500,000
Second Security Bank	11	643	1,464,400
Taylor Real Estate Mortgage Co., Geo. H.	28	1,200	6,100,000
United State Bank of Chicago	15	1,260	2,760,000
Union Trust Co.	30	10,050	45,100,000
Western State Bank of Cicero	30	3,500	10,050,000
Woodlawn Trust & Savings Bank	27	2,550	15,150,000
Others (names on file)	25 Av.	15,735	364,895,550
Total		80,741	$729,022,576

RESULTS: NO LOSS TO ANY INVESTOR, and a SUBSTANTIAL NET PROFIT to the Mortgage Banking Houses from standing behind their securities.

Record of Real Estate Mortgage Investments by Nine of the Leading Life Insurance Companies

(From data supplied by the Companies to Mr. Don D. Goss, Director Publicity Bureau, National Association of Real Estate Boards)

Company	Period Covered	No. of Mortgages	Total Loaned (in round numbers)	Figures Compiled
1	55 years	24,400	$612,000,000	May 22, 1922
2	44 years	79,817	459,000,000	May 5, 1922
3	70 years	27,100	600,000,000	Apr. 25, 1922
4	57 years	40,000	300,000,000	Apr. 25, 1922
5	62 years	90,607	736,000,000	May 2, 1922
6	75 years	52,000	257,000,000	Apr. 25, 1922
7	55 years	115,710	277,000,000	Apr. 24, 1922
8	55 years	111,825	304,000,000	Apr. 28, 1922
9	68 years	21,000	105,000,000	Apr. 24, 1922
Total		562,459	$3,650,000,000	

RESULT: A NET PROFIT to these companies (in addition to all principal and interest) of over $1,000,000.

Viewpoint of Life Insurance Companies

As specific evidence of the interest which life insurance companies hold in real estate mortgages, the report of the following five companies is illuminating:

John Hancock Mutual of Boston 52.5% of admitted assets in real estate loans	$111,058,465
Northwestern Mutual Life of Milwaukee 44.9% of admitted assets	212,542,120
Metropolitan Life of New York 36.5% of admitted assets	357,703,046
Prudential Insurance Co., Newark, N. J. 28.9% of admitted assets	198,508,262
New York Life, New York 17% of admitted assets	164,796,226
Total Real Estate Loan Investments of above five companies December 31, 1920	$1,044,608,119

According to the report of the Massachusetts State Commissioner of Banks, for the year ending October 31, 1921 (the last published report), 196 savings banks in that state with assets of $1,354,846,235 had invested 46 per cent of that total in mortgages.

During the year the loss accounts of the bank showed a loss on mortgages totaling $6,739—one-thousandth of one per cent!

Charges to the loss accounts through other investments were $2,807,258. Our correspondent who provided this information says that trust companies and national banks having savings departments indicate similar totals, in addition to the savings banks.

Another point in the comparison of security values is provided by the real estate loan department of a strong bank in the Middle West, our informant saying:

"We use perhaps as much caution in lending this bank's funds and our officers probably have as much judgment and experience as the average banker. In spite of these facts, however, our bank (and doubtless every other bank does the same thing) charges off to its loss account many thousands of dollars every year, representing losses on 'over the counter loans,' primarily, commercial paper to a small extent, and once in a while a small loss on bonds other than real estate bonds.

"We have been in business since 1909 and have done a fairly large volume of business in first mortgages and first mortgage real estate bond issues, but we have never yet charged off a cent of loss on this form of security, nor have any of our investors ever lost a cent on any real estate securities purchased from us."

Experience of Institutions et al.

Repetition of the same experience on the part of numerous individuals and institutions would become monotonous. But fact added to fact is, nevertheless, increasingly strong in its powers for creating conviction. So just a few instances further conclusive of the safety of mortgage security.

An attorney, much of whose responsibility rested in making investments for clients, reports during the past 27 years investments of $12,600,000—no loss.

A bank reports "no loss" in a history of 14 years of transactions in mortgage securities. Another bank reporting a volume of $35,000,000 repeats "no loss."

An officer in an insurance company refers to an experience of 15 years' investment in mortgage securities—"no loss."

A realty company reporting a volume of $1,350,000 in mortgage loans adds further "no loss" evidence; another realty company reports "never had foreclosure or loss" in 15 years; yet another company reporting a turnover of "several millions" in mortgage securities in the past 15 years, repeats the experience of "no loss," as does yet another which summarizes its volume as "millions" in a history of 27 years. Four other realtors add to the evidence out of experiences of 36 years for two and 25 years for the other two.

Another interesting opinion was presented in an address before a group of Buffalo business men by George T. Ballachey, Manager of the wealthy B. C. Rumsey Estate. He said: "The income on real estate mortgages is a little better than on the best railroad bonds. Throughout all the slump of the war, throughout all the decrease in the value of all bonds and stocks after the war real estate mortgages were almost at par," Mr. Ballachey explained. "There were hardly any losses and they paid their interest at par. It has been the experience of practically every real estate man and investor that they have held firm and the income has been sure."

Our Three Obligations

In reviewing the opinions and suggestions received, your Committee feels that important disclosures have been made with respect both to business and economic obligations which fall upon all of us as a group.

We know that a startling total of investment funds and savings is diverted into insecure investment channels. We know that there is not a sufficiently broad public appreciation of the safety and advantage of the mortgage security. It seems that there are three basic obligations we confront as an association and as a class:

1. We should create more savers.

2. We should exert every effort to reduce the volume of speculative investment, particularly of those who can ill afford loss.

3. We should act to minimize the attractiveness of the dubious or the utterly worthless security—far better were it called "insecurity."

In a measure, we take too much for granted. This has been suggested by casual statements carried in some of the correspondence the Committee has received. One writer says, "It does not seem possible that in this day and time any business man should have to be informed of the safety of first mortgage securities."

Another says that the firm has "never issued literature on this subject (safety of mortgage securities) because these facts are so universally accepted." Yet another who, indeed, may draw his conclusions from the important educational work he has done in his own territory, says: "The superiority of the real estate mortgage as an investment is so obvious and so well recognized in our territory that propaganda of an educational nature along this line seems to a great extent superfluous."

It would be a business oversight, your Committee feels, if an attitude of complacence was adopted toward public knowledge or sympathy with the safety of mortgage securities. Some related information seems appropriate.

According to one of the most comprehensive researches ever undertaken among working people, pursued by the United States Bureau of Labor Statistics, 12,096 families provided specific figures on family expenditure. It is significant that in a long tabulation of classes of expenditure, there was no specific heading for savings. It might be assumed that savings came to have a general classification called "Miscellaneous." This miscellaneous account for the group totaled $87,750," and it must be understood that "miscellaneous expenditures" are included in this total. But the expenditure of the group for the maintenance of automobiles, motorcycles and bicycles was $212,000.

Competition

From a competitive point of view, we must bear in mind that mortgage securities are in constant rivalry with a vast field of other securities of a most legitimate nature. For example, the comparatively new "customer ownership" plans established by many prominent public utility companies. A representative of the Byllesby Engineering and Management Corporation said, before an international convention of business men recently, that practically two million Americans today have a direct financial interest in one or more of the utility companies which the Byllesby Corporation directs. He estimated that 1923 would add at least another 350,000 to that list of investors in utilities stocks and bonds.

He added that in 1922 alone the electric light and power industry raised $175,000,000 through customer investment. He estimated the total in 1923 as reaching $250,000,000. And added: "One prominent group of electric and gas companies has obtained 40 per cent of new construction capital by customer ownership financing during the past eight years. Several large utility companies now have more than 50,000 shareholders each. The telephone industry is said to enjoy a shareholder's list aggregating upwards of half a million. During the present year it is thought that from $300,000,000 to $400,000,000 will be realized by the entire group of utility industries from customer ownership financing."

Do "the People" Know?

Can we say, in the face of these figures alone, that a sufficiently broad understanding is enjoyed by the public with respect to the safety of mortgage securities?

Can we adopt an attitude of self-satisfaction when we know that if the rank and file of investors understand all the facts about mortgage securities countless additional millions would be represented in mortgage securities totals?

Again an excerpt from Mr. Cody's compilation—a brief comparison of the average interest return from real estate loans and from bonds and stocks covering the period of 1906 to 1919, inclusive, in connection with which Mr. Samuel Untermeyer said that "these figures show that real estate mortgages yield the investor a return of practically one per cent a year more than bonds and stocks, an average advantage of about 20 per cent." The comparative figures are as follows:

	Real Estate Loans	Bonds and Stocks
Life Insurance Companies (excluding New York State Companies)	5.26%	4.19%
Life Insurance Companies of New York State	4.97%	4.24%
Fire and Marine Insurance Companies of New York State	5.11%	4.17%
Fire Insurance Companies of other States	5.20%	4.21%
Casualty Insurance Companies of other States	4.174%	4.01%
Casualty Insurance Companies of New York State	5.45%	4.29%
220 Banks doing business in New York State (1909 to 1919, inclusive)	5.70%	4.99%

Interest Return

Another point in relation not only to safety but to superiority of return is shown by another reference to the 196 savings banks of Massachusetts which report an average income on mortgages of 5.84 per cent. The average income on other investments is 5.13 per cent. But the loss accounts as outlined earlier in the report of your Committee shows such a differential in favor of the mortgage security that we find the net return totaled 1.1 per cent better than on any other personal investments of the banks.

If memory serves properly, a monthly magazine some time ago carried a story relating to a wealthy man's estate which included 400 classes of investments, emphasis being placed on the fact that out of this broad investment variety **only those secured by real estate were worth 100 cents on the dollar.**

One of the Committee's correspondents uses in his business an exceedingly interesting series of tables relating to tax-exempt securities, income tax totals and the like. An important point is one statement that an individual's income would need to be practically $70,000 a year before a 4 per cent tax-exempt security would be preferable to a 6½ per cent real estate mortgage.

More people should invest in mortgage securities. In 1920, according to the Department of Internal Revenue, there were 1,124,119 incomes in excess of $4,000. A few random territories are also interesting in their incomes of $5,000 and more. For example, of all the incomes in the United States above $5,000, New York reports 18.49 per cent; Illinois 8.89 per cent; Pennsylvania, 8.55 per cent; California, 6.72 per cent; Massachusetts, 5.12 per cent; New Jersey, 4.08 per cent; Iowa, 3.63 per cent; Texas, 2.86 per cent. These percentages are offered simply as indicative of territorial possibilities.

Impress the Public Mind

Your Committee cannot escape the conclusion that the safety of mortgage securities not only is a living fact, but that the fact should become impressed with emphasis on the popular mind. A realtor in the Middle West summarized, indeed our judgment when he wrote:

"Having in our possession as we do such a wealth of statistics concerning the age and the unquestionable worth and safety of the real estate mortgage, over any other form of security, it is next our duty to get out and sell the public on the merits of the same. Not only will we be saving them untold billions, but they will naturally in the long run make more net out of their investments.

"The trouble is that we know it is good and those who now invest in them know it is safe, but we take no pains to elucidate to the general public and tell them about it. If we would but paint such a glowing picture of our stock in trade as do the promoters of illegitimate stocks we would intrigue their interest. The great majority of people I find from actual soliciting are not familiar with the features of a mortgage."

There is a strong suggestion of what to do in a letter from Philadelphia referring to the advertising campaign in which the Philadelphia Real Estate Board invested $32,000 during the latter part of 1920 "when mortgage money was extremely tight," as our informant writes. He adds, "As a result, many of our financial institutions have largely increased their mortgage holdings. One institution in particular has virtually doubled its investment in first mortgages, as in 1920 it had only $11,000,000 so invested, whereas today it has more than $2,000,000.

Your Committee regrets the numerous obvious factors preventing a research which would be truly national in scope and intensiveness. But if we are to promote the interests of mortgage securities, if we are to capitalize in a business way their superior safety and their higher and favorable yield, by all means a survey of searching scope should be launched.

Recommendations

Our recommendations as a Committee, therefore, are, generally, that such steps be taken in a well planned and organized way; that this preliminary work of your Committee be continued and expanded in five ways:

1. To extend the statistical summary compiled by Mr. Cody; to amplify and reduce to more specific elements the information your Committee has gained, in order that as an Association we may gain an accurate national perspective on the entire subject of the safety of mortgage securities.
2. As a supplementary feature to obtain specific examples of mortgage property, tracing its history back through the years, to show how mortgage security safety has been maintained and safeguarded under various changing conditions of social and economic stress.
3. To obtain from consistent **investors** in mortgage securities recitals of opinion and experience.
4. To obtain human interest experience showing the value of mortgage securities in the maintenance and settlement of estates; their ease of valuation; the security they represent for beneficiaries; the convenience of their ownership.
5. To outline suggestions for a **wide-spread campaign** to the public whereby the facts surrounding the safety of mortgage securities may be effectively brought to **popular attention**, both nationally and in local **population** centers.

"Investment in first mortgage real estate bonds is no longer a hit or miss proposition. Years of experience have proved that they comprise one of the best and safest fields in which to invest funds."

—Forbes Magazine.

APPRAISALS FOR LOANS

By PAUL C. LOEBER
Paul C. Loeber and Company, Chicago

CHAIRMAN CODY: We are growing accustomed in this Division to records, and to astonishing records, at that. It is safe to say that every speaker has achieved a national reputation in his particular line. Especially is this true of our next speaker. As chairman in 1922 of the appraisal committee of the Chicago Real Estate Board, and in 1920 of the Cook County Real Estate Board, he made unsurpassed records in the appraisals for those two organizations. It is the only instance I know of, when one man has served as chairman of both committees. He made thirty-six million dollars of appraisals in one year for the Chicago Real Estate Board, which, I believe, has never been approached. That is a result of his long training in real estate and real estate appraisal work, and we are very fortunate in having as our speaker on appraisals, Mr. Paul C. Loeber, of Chicago. (Applause).

Mr. Loeber: The discussion of the art of real estate appraising is of first and primary importance to Realtors, bankers, mortgage buyers and sellers, owners and, in fact, everyone who may be interested in the management of land and buildings.

We all know that the valuation of real estate embraces the scientific calculation of the true worth of property. The true worth, however, is determined by its market value, utility and possible improvement, the market price being the amount for which a property is sold, or which could be realized from it; in other words, the amount obtainable in a normal market.

As a study, real estate appraisals is becoming more intensive, and, I believe, will be the means of adding a great deal to our knowledge of the fundamental principles of our chosen profession. A knowledge of this subject is absolutely necessary, at least in a limited degree, for the Realtor who desires to make more than an ordinary success in this line. Is it not, therefore, essential that we make a diligent effort to learn the guiding principles of this branch of the real estate business? I should like to say, incidentally, that I am extremely happy that so much thought and publicity has been given appraisals during the past few years, largely due to the untiring efforts of the former appraisal committees of the National Association.

Qualifications of an Appraiser

An appraisal expert should be a man who has a thorough study of real estate values from every angle; one who has accumulated a great deal of data; one who has had wide experience in the business world, particularly in the realm of real estate; and one who has, through actual experience in the sale, renting and management of property, acquired a broad knowledge of real estate and its values.

An appraiser should never guess at the value of property, but should have some good sound reasons for his opinion, supported by actual facts, and he should make his appraisals so that they will not be subject to attack as having no foundation. An appraiser should be **prepared** to handle work of this nature; by preparation, I mean, in addition to experience, he should have a complete record of sales, leases and building costs.

Office Efficiency

For your information I shall describe the system that I employ in my office, trusting you will pardon the personal reference.

I had a map prepared of the entire district of Chicago and its suburbs, covering an area of 42 miles north and south, and an area of 25 miles west of Lake Michigan, including Townships 35, 36, 37, 38, 39, 40 and 41, and Ranges 12, 13 and 14. This map shows the actual sections and indicates the actual section numbers, which, after considerable study, I remembered arbitrarily to suit my particular purposes. Each section embraces an area of one mile square.

Many of these sections were resubdivided into zones according to the density of the population and the activity of real estate transfers; in some sections there are as many as 30 zones.

I use this system for several purposes: first, for maintaining a record of property listed for sale, lease or improvement. (I also have many volumes of Area Books, which are used in connection with this branch of the business. However, they have no bearing on the actual appraisal work.) Second, for keeping articles on real estate transfers, sales of property, real estate appraisals, loans, improvements made or in contemplation to be made, together with copies of the Zoning Ordinances and very often the City Ordinances.

A Storehouse of Data

In fact, everything that would be of any particular interest to the given territory may be found in my files according to zone or section number. In other words, in less than a minute's time, by giving my clerk the street address or the owner's name, I can have brought to my desk the property folder desired or, by referring to the map and securing the zone number, obtain all the information which I have in my files concerning property located in the given territory which, of course, takes in all the property in the active market which I have listed for sale and various records of sales, leases, transfers and appraisals which have been made by me. Thus I have available a storehouse of invaluable information.

Possibly the impression is made that my office does nothing but keep up a system that is burdensome with a lot of red tape. This is not true and I want to disabuse your mind of such a thought. However, in the beginning, before the system was in operation, it took a great deal of my time and the time of clerks in my office to install it, but now one clerk spends practically all of her time in keeping these records in shape, occasionally with the assistance of another clerk. Of course, the clerk who has charge is rather expert.

True, it entails the expenditure of considerable money, but it is an expense that I feel I can well afford. It is exceedingly helpful, saves a great deal of time, and is indeed a joy to me to be able to find any information in my office instantly. In the old days I used a card system and would spend hours of my time searching for accurate information concerning some property which I knew was in the office somewhere, but I could not recall just where. Now I have a place for everything and endeavor to keep everything in its place.

Some of you may wonder what this has to do with the appraising of real estate? It simply has this much to do with it—**a tremendous amount of information is available at all times.** I might add that the property is cross-indexed in files, according to location and owner's name. All correspondence in reference to any property will naturally go into the property file independent of my solicitors, so that without asking any questions, I can find the true conditions in reference to any property I have listed.

Qualifications of an Appraiser

Going back to the qualifications of an appraiser, the reasan I maintain that a long business experience is necessary, is because we form little associations of ideas every day of our business life which cause us to realize the orderly stages of the mind and help us in forming our opinions. Percepts are remembered just as sensations are, therefore we may go about with percepts in our minds and by putting these together we form a concept. By this process of conception, we are taught the necessary order by which the mind puts together facts pertaining to real estate, making companions of them by comparison and relation to the particular property under consideration.

The responsibilities and work of an appraiser are unlike those of any other profession—for instance, the vocation of a trial lawyer. His business is to **win** his case. He, therefore, lays all of the emphasis on the facts that will favor it and purposely keeps in the background all those that do not. He gets the verdict of the jury.

An appraiser should not follow this method at all. He should aim to arrive at the **true** and **real** value of any property submitted to him for his consideration. I believe an appraiser should be an independent thinker. Of course, a successful appraiser must be absolutely honest; that goes without saying. By an independent thinker, I mean that he should consider all facts that have any bearing on the particular property before him; he should seek the truth as to its value and not permit himself to be influenced by friendship or sentiment. He should always analyze all information which he obtains in the most critical manner and base his conclusions on FACTS.

I do not mean that he should be narrow or opinionated—rather, that he should consider the property with an open mind.

Interest is one of the most important factors because we must have interest in our work in order to make us associate our ideas but we must have the right kind of interest if we are to direct our thoughts along the right channels. If we study the work of such a man as Darwin, we will find that he was always interested in the TRUTH AND IN TRUTH ALONE. He was afraid of only one thing, and that was of going wrong. If his object had been to prove anything in particular, he would have been more interested in one set of rules than another. But he was interested in all facts, because all facts lead equally to the truth. Darwin began with the theory which came into his mind and spent 20

years working it out. I do not feel that the average business man should spend 20 years proving his theory; I am simply trying to show that Darwin's object was not to try to prove or disprove anything; rather it was to find the truth.

Find the Truth

That is just what an appraiser should aim to do, TRY TO FIND THE TRUTH; in other words, the real value of the property before him. In order to be able to do this, an appraiser must be a man who has made a study of actual real estate transfers and not one who, from hearsay and the mere perusal of newspaper articles, reaches certain conclusions as to valuations. He should have the facutly of putting all facts together and with the association of experience and ideas of sales, replacement and economic values, should be able to finally determine the true worth of the property under his consideration.

The Art of Appraising

The competent appraiser views property from many different perspectives. He sees the modern tendencies of the neighborhood and its possible future. He perceives conditions that make for a steady and healthy growth; he notices influences whose trend is toward retrogression rather than progression. With the eye of experience to its best and highest use; that is, to its best advantage and in the most logical manner to bring the greatest returns on the capital invested.

Factor of Transportation

Street car lines and elevated railways have a decided effect on the value of real estate. The nearness of commercial property to elevated and street car transportation tends to add considerable to its value where, on the other hand, residential property situated on a car line or opposite an elevated station depreciates in value. There are certain advertising advantages to business property adjoining elevated railroad right-of-ways, but what benefits business property proves to be detrimental to residential property.

Important Details

Improvements on real estate play such a large part in the investment. The strong influence of improvements and the use to which property is put have a decided influence upon the adjoining and contiguous land and buildings. An appraiser should weigh fully his proposition from this angle and should be thoroughly familiar with the laws of supply and demand as they apply to the property before him.

When a property is listed for appraisement, the complete legal description and commonly known street address of the holding must be secured, together with a plat showing the exact location, the lot or property dimensions and, if there is any question about the improvements being within the property lines, a certified survey showing the improvements and the street and alley widths is absolutely necessary.

An appraiser should, of course, know the size of the buildings or improvements, the cubical contents, learn, if possible, the date of erection, and try to secure a complete set of building plans.

It is imperative that an appraiser personally inspect the premises with the utmost care and should never, under any circumstances whatever, value any real estate on the recollection of what it looked like the last time he saw it. A personal inspection is necessary, taking particular notice of all existing details and conditions, not only of the property in question, but the district in general. An accurate, itemized statement of the receipts and disbursements of the property should be secured and the statement should be completely analyzed.

I believe that it is always better to determine the value of a structure on a cubic foot, or perhaps a square foot basis, particularly in office, warehouse and manufacturing buildings. In smaller structures, an appraiser can arrive at an approximate value invariably by estimating the value at room cost and this also is a general practice in the rental of apartments.

Economic Rent

It should be determined whether or not the rents are excessive or of a normal standard, for economic rent is one of the most important elements entering into the valuation of real property. I do not believe commercial property in particular has any value excepting the income from rents, or perhaps prospective rents from the property. It is the income that is received or could be received from a holding if it were adequately improved that is a very decided factor in arriving at the value of this class of property.

I believe that the gross rents of property, after they have been ascertained by careful analysis of rent statements and leases, should be compared with the rents from similar property in the same locality. If the rents are normal, they

will bring a fair return on the investment. While rents of property are prima facie evidence of its value, it is not altogether conclusive. Vacant land and inadequately improved property do not always indicate the value. Sometimes the property has a potential value which represents the future earning capacity.

Character, Use, Location.

Where improvements are of special construction they should be considered as to their use or probable use and influence on the property under consideration. The character of the adjoining improvements and the general use of the property in the neighborhood should be given thought. Then the question of transportation, population and accessibility, together with its adaptability for different uses should be given serious consideration. The question of whether or not values in any given neighborhood are liable to increase or decrease because of natural conditions are items that should be borne in the mind of an appraiser.

Architects and building contractors, to my mind, seldom do, and I doubt very much whether they are qualified to pass on the commercial element in buildings. It is impossible to determine this particular element of value unless the person has the qualifications of a Realtor and knows the market conditions of real estate, together with its highest and best use.

Land Valuation

It is the general practice to value land on a front foot or square foot basis. I do not doubt but what this practice is safe in residential sections or manufacturing districts where the lots are of regular shape, but in retail districts, on transfer corners or in the central business district, where real estate is extremely valuable and where lots have an irregular depth of peculiar shape, I am inclined to believe that it is advisable to use some unit system or table of depths and corner influences to determine in a scientific manner the value of the property in question.

Appraisal Tables

I believe that the first scientific table was established in 1866 by Judge Murray Hoffmann, of New York, and is known as the "Hoffmann Rule." However, it may be that the Four-Three-Two and One Rule was established previous to that time, but I have not been successful in ascertaining just when this system was created. The Four-Three-Two and One Rule, for quick calculation is:

"Real estate appraising is a very important responsibility... The appraiser must have more than ordinary preparation, and his opinions should always be based upon facts, giving complete consideration to the market value of the property.

"I believe an appraisal is worthless unless it is accurate, but it may be more than worthless; it may work an actual injury, or financial loss, therefore our opinions should represent the highest degree of thought."

40 per cent of the first 25 feet
30 per cent for the second 25 feet
20 per cent for the third 25 feet, and
10 per cent for the last 25 feet

This is all right for quick calculation, but it only covers lots of a hundred foot depth and represents 100 per cent. The following rules, I believe, were established in the order in which they are mentioned:

Hoffman-Neill Rules
Newark Rule
New York Suggestion or Plydell Rule
Linsay-Berard Rule
Somers Rule
Wm. E. Davis Rule, and
John A. Zangerle Rule

I believe that the "Zangerle Rule" is the outgrowth of the "Somers System." I do not know very much about the Somers System because that has secret rules and tables. I am inclined to think that it has a great deal of merit, but what good are secret tables to Realtors? We all want to learn everything we can about real estate and real estate appraisals, and I believe that if owners of the "Somers System" would publish these secret tables in book form, they would have a ready sale for them. I know that I, as well as many other students of real estate values, would be glad to pay a god price for a copy of their book.

I have been using the "Zangerle Rules" very successfully. I have found them most interesting and helpful, and so far as I have been able to ascertain, they are scientifically correct.

Mr. Zangerle is a profound student of real estate methods of values. His book is for sale by Stanley L. McMichael, 1222 Prospect Avenue, Cleveland, and the price is but $3.00 per copy.

"Economic depreciation or obsolescence must be considered as having an effect on the value of the improvements and there will naturally be a difference between the sale value of the property and the land value, plus the sound value of the improvements.

"For quick estimation of natural depreciation we have frequently made allowance of 3 per cent pear year for frame buildings, and 2 per cent per year for good brick buildings, while dwelling houses will depreciate sometimes 5 per cent per year, and in many cases even more than this."

an extremely low figure for a book of this character. Every Realtor who is interested in real estate appraising should own a copy of this book.

Irregular Sized Lots

I must admit that I am not thoroughly familiar with the tables in all of the books that I recommend to you, though I have studied nearly all of them. It would be quite impossible for us, at this time, to consider each and every table, because a discussion of this phase alone would take up all of the time that has been allotted to me. By securing a copy of any of the aforementioned rules, you can consider these illustrations at your leisure.

Suffice it to say that in my opinion you can only arrive at the value of lots of a triangular, rectangular, parallelogrammic or trapezian shape by the use of some scientific table. In appraising lots of an unusually irregular shape, it sometimes becomes necessary to employ geometry or trigonometrics in figuring out the problem. I have spent many evenings in figuring out actual problems which I have had under consideration and many imaginary sized and shaped lots, where I wished to determine their value by the use of these tables. To me this work is extremely interesting. All of these tables and rules, however, must be employed with careful discrimination together with the use of good common sense.

Examples of Chicago Values

The following illustrations are of unusual interest in connection with land values:

The Palmer House site in Chicago, at the southeast corner of Monroe and State Streets, was purchased in 1866 at $1.50 per square foot; then in 1873 it was valued at from $12 to $14 per square foot; and is now worth $200 per square foot.

The lots on Michigan Avenue and Wabash were valued in 1874 at $6 to $8 per square foot and those on Clark Street, La Salle Street and Washington Street a shade under $10 per square foot.

One of the corners at State and Madison Streets was valued at $770 per square foot and $65,454 per front foot, just a short time ago.

These are some of the changes that have taken place in Chicago since 1866.

A recent press item stated that Chicago land values increased $300,000,000 during the year 1921 and $200,000,000 during 1922, making a total of $500,000,000 during the last two years. Also, that the total valuation of Chicago's land is estimated at not far from $2,500,000,000.

I am very sure that this is also true of many of the large cities throughout the United States. What will be the development in the next 25, 50 or 100 years?

On Urban Growth

The last time I was in Cleveland I attended the Cleveland Real Estate Board's annual banquet. One of the speakers prophesied that the population of New York would double in 40 years, of Chicago in 25 years and of Cleveland in 14 years. I call your attention to these facts to show you what has happened in our little villages and hamlets and to give you some idea of what the economists think about the future growth of just three of our large cities. To me, this emphasizes the necessity of endeavoring to establish certain definite principles for real estate appraisals which will be of some use to the future generation.

For further illustration many of you are familiar with the corner of State and Madison Streets, in Chicago. Monroe Street is the first street south of Madison Street. The property on the west side of State Street, between Madison and Monroe Streets, has a depth of 120 feet and the property on the east side of the same block has a depth of 180 feet, with the exception of the northeast corner of Monroe Street, extending north 116 feet, which has a depth of 83 feet. Our Board of Review placed a unit foot value on that block of $13,500.

We will accept this figure for the mere purpose of illustration. Common sense tells us that there must be a difference in the value of the lots in that block. The corners certainly

represent a higher value than inside lots, and the 83 foot lots, with the exception of the corner, certainly are not as valuable as the lots adjoining, of 180 feet in depth, and the 180 foot lots are certainly more valuable, under ordinary circumstances, than the lots across the street of 120 feet. Now this is true of many lots in the business districts of Chicago. I have no doubt that it is true of many business districts outside of Chicago also. My judgment is that the only way to determine the value of the property is by the employment of some scientific table.

Valueless Except to Experts

In the proceedings of the National Appraisal Conference held in Chicago during the convention in 1921, it is shown that someone suggested it would be a good plan for the National Association to endorse some rules and a guide to appraisers for lots of various depths and sizes. A reply was made that it would be a mistake for us to do so, because it would give the public too much information and would enable property owners to appraise the property themselves. I do not know that I have quoted the reply verbatim, but as I remember it, that is the substance of the remark.

I do not agree with this view. I am willing to give the Realtors any information which I have concerning this subject. I am even willing to furnish the man for whom I make an appraisal with a copy of the rules. Chicago has a book which gives land values all over the city; these, however, are not authoritative and rules, tables and even unit foot values are certainly valueless to anyone but a real estate man who is an expert in the art of appraising.

Study and Experience Essential

Works on this subject by prominent Realtors are of no more value to one who does not understand their language than a costly violin would be in the hands of one unskilled in music. I will take my chances with the property owner. I hope to know rules, laws and requirements of appraising, by years of experience, much better than would an owner by the perusal of a book of tables. I would like to see our National Association give some consideration to this question.

The unit foot value must be established in order to employ any of these rules successfully. This cannot always be done by public expression. It is sometimes necessary to figure sales backwards, by the employment of these rules, in order to determine the unit foot value.

Re Public Expression

Right here it is well to interpolate that where the public expression is intelligent it is not always honest and where it is honest it is not always intelligent. I know this is a very bold statement, but I have found it true nevertheless. You go to an owner of property and ask him what his property is worth and he will want to know why you ask. If he thinks that you are trying to buy it for an adjoining property owner or that it is liable to be condemned for some public improvement, he will tell you that it is the most valuable property on earth. I have known cases where owners have asked twice or three times the true value for their property. On the other hand, if an owner has a suspicion that it is for the purpose of fixing taxes, he will lie about the value and tell you that it is hardly paying expenses and that it would be a special favor to him if you could arrange a sale of same.

Peculiar Valuation by Owner

Only the other day I valued an apartment building on the south side of Chicago for loan purposes. I met the owner (to whom I was unknown) on the premises accidentally and asked him the rent of the apartments. He told me that he had 12 five-room flats which brought $55 per month and 12 four-room flats which brought $50 per month each. I then gave him my card and said that I was considering making a loan on the property. He said, "Oh! that is different. The 12 five-room apartments actually bring $70 per month and the 12 four-room apartments bring $65 per month each."

I asked him why he misrepresented the facts in the first place. He replied that it was a revaluation year of taxes and that he thought I looked like an assessor. He said he naturally wanted to keep his taxes as low as possible. I, of course, had the auditors check his books and leases to ascertain exactly what his income and expenses were. Do you not see that some people are inclined to misrepresent?

Appraisers Sometimes Unqualified

Another marked contrast to the above illustration is an inquiry among the average hard workingman who is not endowed with very much money or many of the worldly treasures, who probably has a little home and has to struggle a lifetime in order to pay for it. Ask him the value of his property and he will give you an honest opinion of what he thinks the property is worth. The chances are it will not be intelli-

gent, however, regardless of whether the expression is intelligent or honest, or both, in many cases I believe that the ordinary property owner is incompetent to give the value of his property.

Sometimes even real estate appraisers who are working in certain localities are unqualified to give a real intelligent opinion of value. This I know is another bold statement. It is not true in all instances, but we often find that brokers are unqualified to give an opinion of value in their particular neighborhood for the reason that they are prejudiced and are carried away by enthusiasm; their knowledge is limited to the property in their particular neighborhood; they cannot make comparisons with property in other similar neighborhoods, and sometimes they are not awake to the possibilities and the future development of the property in their immediate localities.

We all know of instances where brokers from some other territory who are awake to the possibilities of the higher development of the property come into certain localities and develop it, very aften making very large profits over the brokers who have been established there for many years.

The Cost Price

Coming back to the question of public expression, when you ask a man what his property is worth, you get an opinion, but as I said before, it may not be worth very much. When you ask a man what he paid for his property you get a fact. That is the only thing that is worth while in real estate appraising. Land includes all the returns that land, as such, yields to the users. All returns are both material and psychic.

The satisfaction of a beautiful view obtained by a home on a hill-top is just as true a part of the income yielded from land as are the comforts and conveniences afforded by the foundation of a house and the surrounding land. What might be termed factors of sentiment will often yield a larger money return than all other services which the land supplies. Of course, I know it is true in urban land as well as mineral, that there are large gains and losses.

Separate Estimates Recommended

Luck and chance play a bigger role here than in agricultural land, but I shall confine my discussion to city property because there are others who are so much better qualified to discuss the question of agricultural and other lands. Land owes its value not to its inherent natural

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qualities, but to the work done upon it by man. I believe that land and improvements should be estimated separately, even if the combined value is required. Fewer errors are liable to occur and it is most helpful in checking any discrepancies that may arise.

A problem which I encountered last year and one which may be of interest is a case where I was considering the value of a strip of land which formerly had been used by a railroad as a right of way, 63 feet wide with a depth of approximately 2800 feet, adjoining a street on one side and an alley on the other side. The land was of no value for industrial, warehouse or farming purposes, so I made an imaginary resubdivision of the property. I determined the front foot value of the land, allowing, of course, for the necessary improvements and selling expense and this represented the value of the land.

A Fundamental Law

Real estate consists of land plus what is on it and inseperable from it. The value of improvements is not always their replacement cost, less depreciation, because they may be obsolete as far as utility is concerned. In my mind, the value of real estate is the value of the property as a whole. I think that until such time as appraisers learn this most important and fundamental law in appraising and until they get away from the pitfall of appraising land and always the replacement value of the improvements less depreciation, they will never become skilled and dependable men in their profession. Of course, where the improvements are peculiarly adapted to the lot, that is, where the utility is best served by the improvements upon the lot, then the replacement cost, less depreciation, added to the lot will represent the value of the property as a whole.

Valuation of Buildings

The best method of obtaining an accurate value and the method adopted in all buildings before erection is by taking out from detailed plans the quantities of various kinds of materials and labor and pricing each separately. This is a very lengthy operation and I do not think it is altogether necessary for building appraisement. I think a very fair estimate may be made by other methods.

I do not think that it is necessary for an appraiser to be an architect or structural engineer or a contractor in order to determine the value of a building, but I do think that he must be a close observer and must have an unlimited supply of accurate data on the cost of buildings. Furthermore, he must have an unbiased mind and he should find out from reliable sources the cost of various buildings, ground floor area and cubical contents and then ascertain the difference in the cost of construction and reasons for same between the buildings he uses for comparision and the property under consideration.

If he will fix a status on a certain type of construction and keep a record of costs and analyze the difference in the cost of various kinds of buildings, he may reach an intelligent idea as to the cost of buildings of a similar type. This, however, only refers to the question of the reproductive cost of the improvements, less the natural depreciation, and does not cover the question of absolescence.

Deterioration

Deterioration is the physical failure of the building, even if the necessary sums have been expended in repairs to arrest effects of wear and tear and decay, to respond to the utility of the lot. We often find buildings that are unsuccessful because they are misplaced, unsuited to their surroundings, too costly, too cheap or poorly planned and naturally result in a considerable loss in income. R. P. Bolton, a prominent construction expert of New York and the author of the best known book on structural deterioration that I have ever read, emphasizes the fact that overbuilding is an appalling waste and that the ruling consideration in this regard should not be the maximum expenditure that can be made on a site and earn interest on the cost of the investment, but on how small an investment in cost of construction, the capitalized value of the land can be maintained. Another very interesting book is "The Commercial Problem in Buildings," edited by Cecil E. Evers.

Appreciation of Values

If the earning capacity of a building should, for any cause, fall below the point where the return upon the invested value is less than market rate, then the only means of rehabilitation of the impaired capital, or provision of security for the investment of further capital in reconstruction or alteration, is to be found in some increase or appreciation in value of site, or what is commonly known as the "unearned increment of land values."

The rate of appreciation in value of any land is affected by a variety of exterior conditions, but there is always a probability that the same conditions which adversely affect the building may similarly affect the land. On the other hand, those that beneficially affect the demand for the land may be adverse to the conditions of the building upon it. An assumed appreciation is not always realizable as an actual asset because it may not be realized unless the building is first removed and a different improvement erected on the land.

Building Depreciation Certain

I believe that a great many people figure an imaginary return on their real estate investments and fail to set aside a proportionate percentage of the value of the building in the form of a sinking fund to offset the eventual loss of the building. It is poor business judgment and unsound for an owner to offset the depreciation of a building on a dependence on the increment of land, because the depreciation of a building is certain and the rise in values of land is uncertain. I believe that a building may be 75 per cent, 80 per cent or 100 per cent structurally sound and still have decided features of obsolescence. We all know buildings that have been erected and which had a decided percentage of obsolescence the day they were completed.

Two Vital Factors

We must consider structural deterioration and economic depreciation, or obsolescence. It is apparent that economic depreciation is more marked in the cities which have the most rapid growth. In fixing a rule of economic depreciation, what would be considered a fair working unit in one city would be absolutely absurd in another city. This is so true that after years of careful study the conclusion has been reached that there is no set of figures that can be used in computation of obsolescence, but there is an economic depreciation and usable value on structures which may be expressed after a proper

deduction for structural deterioration, if the property, namely the improvement, will not sell for its sound value or will not earn a fair return on its sound value.

Depreciation Allowance

Economic depreciation or obsolescence must be considered as having an affect on the value of improvements and there will naturally be a difference between the sale value of the property and the land value, plus the sound value of the improvements. For quick estimation of natural depreciation we have frequently made allowance of 3 per cent per year for frame buildings, and 2 per cent per year for good brick buildings, while dwelling houses will depreciate sometimes 5 per cent per year and in many cases even more than this.

The usual depreciation figured on warehouse and factory bnildings of mill or concrete construction is from one and one-half to two and one-half per cent per year, depending somewhat on the use of the property and the care which has been given the improvements. Office buildings of the type known as steel construction depreciate about on to one and one-half per cent per year. After all, there is no definite rule that can be followed in reference to depreciation because it all depends on the care given the improvements and the character of the neighborhood in which the particular property is situated and the question as to whether or not the property is improved to its highest and best use.

Examples of Obsolescence

Sometime ago I read a very interesting article known as "The Effect of Obsolescence on the Usual and Profitable Life of Office Buildings," by Mr. Earl Shultz, president of the National Association of Building Owners and Managers, Edison Building, Chicago. He gave very careful and intelligent consideration to this subject. It seems to me that it would be worthwhile for anyone interested to try to obtain a copy of this booklet.

I have in mind several buildings in Chicago which, to the average layman, would appear to have a tremendous value. Take for instance the Auditorium Building. I recently read an article in the newspaper to the effect that this ten-story building, which is thirty-five years old, is resting on a floating foundation and has settled 72 inches. The property does not even earn enough to pay the interest on the bonded indebtedness and the loss in 1921 was a little over $45,000.00. The taxes on the property increased from about $3,500 in 1888 to a little over $145,000 in 1922.

I have not investigated these facts nor have I valued the property, however, I have numerous holdings in this vicinity. If this information is correct, in spite of the fact that it is a very imposing ten-story structure, the improvements are obsolete and represent no added value to the land. In other words, if this information is true, and I am inclined to believe that it is, the property is not improved to its highest and best use.

Another illustration is the property of the old Grand Pacific Hotel in Chicago, which was at the southwest corner Jackson Boulevard and Michigan Avenue. While the building was very old, it was rather good looking for an old building and to the average mind would appear to have some value, yet it absolutely added no value to the land and the buildings were removed and a new fine office building is now being erected upon the land.

This is also true of the site of the Illinois Trust & Savings Bank at the northeast corner Jackson Boulevard and LaSalle Street and the old Royal Insurance building which was at the northwest corner Jackson Boulevard and LaSalle Street. There are a great many others that I could mention.

These illustrations I trust will help you to show how important the consideration of structural deterioration is, together with economic depreciation or obsolescence..

A Misuse of Land

Allow me to cite another very interesting case. I know of some property on the north side of Chicago which has 233 feet of frontage on a business street with a car-line, another street frontage of 304 feet on the north side and a street frontage of approximately 400 feet on the south line. The property across the street, facing on the street-car line for several miles north and south, is improved with stores and is used for commercial purposes. The streets on the north and south side of the property are improved with large apartment buildings. The land value for store and apartment purposes at the time of valuation was worth $100,000.

The owner, who is a very wealthy man, decided to build a residence on this property to cost about $250,000—a beautiful mansion. His family and friends tried to persuade him to buy a more desirable site on a boulevard, but he was stubborn and insisted upon carrying out his plans. The highest and best use of the property at that time and now would be for business and apartment purposes.

Will Not Bring $150,000

The land today is worth about $160,000. If the property were offered for sale, unless someone could be found who could use it for hospital purposes or for some sort of public institution, I am sure that it would be difficult to get more than $250,000 for the entire property. The building was 100 per cent structurally sound when it was completed, but yet, in the minds of a number of competent real estate people with whom I talked, it was obsolete to the extent of about 80 per cent the day it was completed and the property would not bring more than $250,000—for land and improvements.

Building and Incumbrance

I had a very interesting experience several years ago where I was asked to value some property for government purposes, located in the close-in west side district of Chicago. The improvements consisted of several very substantial four-story and basement apartments and store buildings which brought a fair return for that character of improvements, in that particular neighborhood, but the ground was so valuable for manufacturing purposes that it developed in my final analysis that the buildings were really an encumbrance to the real estate. I could not give the property a valuation consistent with sales, asking prices and 99-year leases of other similar property in that vicinity and still consider the improvements as playing any part in the determination of the value of the property as a whole.

I therefore worked out a plan of a proposed new building on this property, one in keeping with the neighborhood and disregarded the value of the improvements and considered the ground value as indicated above, submitted my conclusions and analysis to the owner, who in turn sent them to the United States government. I enclosed in my certificate, a plat of the property and a picture of the improvements.

A government inspector called at my office from Washington. He could not understand why improvements as good looking as these did not add to the value of the property. After a conference which lasted for about 30 minutes he left my office and was perfectly satisfied and accepted my conclusions as being sound.

Improvements Worthless

To make it clear, the building in question (while it was well rented because of the home shortage at that particular time) was located in a manufacturing district and in making a study

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of the statements of income and expenses for the previous ten years, it developed that the improvements were an economic loss and that the property, over a period of ten years, did not even pay a fair return on the land value, with carrying charges of taxes and insurance.

I am also sure that no one would pay anything for the improvements, for I feel that this particular building could not be sold as an apartment building to anyone seeking that class of an investment because of this location and anyone who wishes to buy it as a manufacturing site certainly would not pay much, if anything, for the improvements because they would have to be destroyed to make way for a manufacturing structure.

A Freak Improvement

In another instance, the Valuation Committee of the Chicago Real Estate Board, of which I was chairman last year, was asked to value some property in the new north central business district. We found that the land and residence building were purchased for the sum of $45,000. The purchasers expended, according to vouchers and statements presented to our committee, the sum of $68,000 on what they considered additions and betterments to the property. We gave a great deal of thought and study to this problem and finally arrived at a value for the entire property of $53,500. Mind you, the property actually cost the owners $113,000. The amount expended for what they thought were improvements was almost entirely wasted. It was a freak of a building, as we Realtors often find, with practically no commercial value.

A Cheap Boarding House

Another illlustration of obsolescence is a valuation which I made last year of some property on one of our south side boulevards. The improvement consisted of a two and one-half story,

stone residence with a garage and stables in the rear. I supposed that the improvements originally cost approximately $60,000. I valued the land at $45,000 and concluded that the improvements were of no added value to the land.

The residence set back from the lot about 20 feet and a very large apartment building was built to the sidewalk; several apartment hotels and warehouses were built in that immediate vicinity and I therefore concluded that people who might wish to buy a residence certainly would not be interested in the property in question. The property since that time has been sold and is rented as a cheap rooming house and brings about 4 per cent net on the land value. The highest and best use of the property would probably be an apartment hotel.

I valued another holding on one of our south side boulevards—a really beautiful two and one-half story, double, frame dwelling house, on stone foundation, with very elaborate appointments but about the same conditions existed as aforesaid. I found that the land was worth $125,000, but the residence could not pay the taxes, to say nothing of paying a return on this valuation, consequently the improvements were of no added value to the land. It certainly would seem strange to the average layman if you would tell him that the building had no particular value.

I valued some property on State Street, close to the loop district. The improvements consisted of a one-story brick store building, quite good looking and well rented, but the improvements to my mind represented no commercial value because the land represented a value of $200,000 and the improvements at that time just about paid the taxes of the property.

I could recite many similar illustrations of complete and perhaps partial obsolescence of buildings, but I believe the illustrations I have given furnish my ideas of the subject.

The Path of Progress

Changes have come about in real estate just as they have in our modes of living. We now live in modern heated homes, served by electric labor-saving devices, we drive to our office in motor cars and find upon our desk the last minute report of business conditions which come by wire from all over the world. None of us would care to go back to the standards of ten years ago; no, not even five years ago. The year before the war was another age. If we did want to go back, we would stand alone and be outstripped by those more progressive. One of the chief peculiarities of this evolution has been the emergence of one form of surplus after another scattered all over the ecenomic field of production and distribution.

Perhaps another illustration of changes that time has brought with it is the history of the surface cars. The 5-cent fare formerly yielded large profit. Owners of the surface lines spoke of making three for one in their investments. The same 5-cent fare has now squeezed some of them into bankruptcy, while others have had to pull up their tracks and go out of business to avoid bankruptcy. Our street car fares in Chicago are now 7 cents and I understand that the company has been unable to pay its stockholders any return on their investments.

Leasehold Estates

I am not going to say very much about this most important and intricate part of appraisal work, because I see men in this audience who probably know a great deal more about it than I do. In fact, it would take all of the time that is allotted to discuss it. Stanley L. McMichael, Realtor, 1222 Prespect Avenue, Cleveland, has written a book, "Long and Short Term Leaseholds," which I think is of unusual merit. Anyone who is interested in this subject should get a copy of this splendid book. I have a great deal of respect and admiration for the appraising brains of Cleveland—Cragin, Zangerle, Webb, McMichael and many other well known men of this live town. I have not only had a great deal of inspiration in my work from these men but I have learned many things through them and in reading their works and articles on real estate appraising.

Books on Appraisals

You may thing I am selling these books on a commission basis, the way I recommend them, but strange to say, I have never met Mr. McMichael and the chances are he does not even know who I am. I am glad to give you any information that I may have, the benefit of my experience, and to tell you of the books and articles that have helped me in my study of this subject. Right here it is well to give you the names of various books which I have in my library:

Two volumes—Valuation of Public Service Corporations, by Whitten. Published by The Banks Law Publishing Co., New York.

Four volumes—Urban Land Economics, by Prof. Richard T. Ely of the Institute of Research

Work, University of Wisconsin, Madison, Wis.

Valuations, by J. E. Van Dyke. Published by the Financial Press, 116 Broad Street, New York City, N. Y.

The Taxation of Land Values, by Scheftel. Published by Houghton, Mifflin Co., Boston, Mass.

Practical Methods for Appraising Lands, Buildings and Improvements, by George J. Craigen, assistant chief deputy, Department of Taxes and Assessments, City of New York.

Real Estate Principles and Practices, by Benson and North. Published by Prentice-Hall, Inc., New York.

Valuation of Real Estate, by C. A. Webb of England.

Some Principles and Problems of Real Estate Valuations, by Alfred D. Bernard. Published by U. S. Fidelity & Guaranty Co., Baltimore, Md.

Principles of City Land Values, by Richard M. Hurd.

I regret very much to say that the volume of Mr. Hurd is out of print and it is impossible to obtain a copy of it from the publishers. You may be able to find one in the public library of your city.

Method of Procedure

Coming back to leasehold estates, you must naturally value the property in fee simple, capitalize the lease on the property at the usual prevailing rate of interest, examine the 99-year lease in reference to special provisions. These include the disposition of the building at the end of the lease, the difference between the value of the land and the value of the land when the lease was made and the added value of the improvements, with a yearly reserve taken from this amount with interest compounded, which at the end of a lease would liquidate the value of the leasehold estate (which, of course, includes improvements) and will represent the value of the leasehold estate.

In other words, a purchaser of a leasehold, by following this method, could realize the proper return on his investment during the term of the lease and also have a complete return of his capital. You will find some very good illustrations in Mr. McMichael's book, "Long and Short Term Leaseholds."

Leasehold Examples

I shall also give you a few illustrations which I have in mind:

I was asked to determine the cash value of a building lease. I, of course, first determined the value of the land, the replacement cost of the building and its fair rental value. I found a rental value of $32,000 per year. The lease was made on an annual rental of $17,705.28 for 14 years and $17,955.28 for five years of a 19-year term, showing an average net profit annually of $14,228.93, or a profit for the term of 19 years of $270,349.69. This does not, however, represent the value of the lease because the profit would be paid, under the terms of the lease, in semi-annual installments for the unexpired term.

In other words, it would take 19 years to realize the profit and in the meantime the deferred semi-annual payments would be entitled to interest. It was, therefore, necessary for us to determine what amount invested at 8 per cent semi-annually would amount to $270,000 in 19 years. We found by the use of an amortization table that it represented a cash value of $60,826. The parties for whom this valuation was made were astonished at these figures and brought an actuary to my office to get all the facts. I am happy to say that he finally agreed perfectly with my conclusion.

A Highly Improved Property

The Valuation Committee of the Chicago Real Estate Board valued the fee of some business property, subject to a ground lease which was originally made for 25 years, with five years of the lease still to run. The ground rental was very low according to rental values at that time and only brought the owner a return of about 2 per cent on its value. There was a provision in the lease, however, where the improvements were to revert to the owner without compensation at the expiration of the lease. The property was improved to its highest and best use, the building and improvements were in excellent condition and repair, and, consequently we determined the value of the land and building, allowed for the loss in ground rent, with interest compounded monthly, and deducted this from the value of the entire property, we then arrived at which we thought the value of the property as a whole and also a price for which the fee in the property could be sold.

I had a very interesting lease to appraise. I was asked to give a value of a lease as of December 31, 1917, 1918, 1919 and 1920. The value of the land in 1917 was $67,200 and the value of the building $96,640. The rental value at that time was $15,219.67. The yearly rental paid under the lease was $8500. I determined by the use

of the amortization tables and the present worth of money that the cash value of the lease was as follows:

(No. 1)

Land value	$ 67,200.00
Building value	96,640.00
Total value	$163,840.00
Rental value of building	$ 15,219.67
(Yearly rental paid under lease, $8500.)	
Cash value of lease, 12-31-17	$ 29,756.79

(No. 2)

Land value	$ 67,200.00
Building value	96,640.00
Total value	$163,840.00
Rental value of building	$ 15,219.67
(Yearly rental paid under lease $8500 to May 1, 1919 and $9000 thereafter.)	
Cash value of lease, 12-31-18	$ 29,166.14

(No. 3)

Land value	$ 87,200.00
Building value	149,792.00
Total value	$236,992.00
Renting value of building	$ 23,675.00
(Yearly rental paid under lease $9000.)	
Cash value of lease 12-31-19	$ 56,721.07

(No. 4)

Land value	$ 87,200.00
Building value	193,280.00
Total value	$280,480.00
Rental value of building	$ 20,057.00
(Yearly rental paid under lease $9000.)	
Cash value of lease 12-31-19	$ 68,065.58

This was in spite of the fact that the lease had a shorter period to run.

This was due to the increased value of the land, increased building costs and increased rental value. I figured these problems out on a basis of 8 per cent per year, quarterly, compound interest, under the Robinsonian Building-Loan Interest Tables and also under Beach's Interest Tables. I also understand that Pierre Zaldari, a special lecturer on mathematics at the college of the city of New York, 66 Broad Street, New York City, is about to publish financial encyclopedia and from the description he gives me in a letter I am inclined to believe that it will be a worthwhile publication.

A Simple Method

Here is another illustration that I thought might be of some interest to you: Let us assume that we have a lot 100x100 feet or 10,000 square feet, at $500 per front foot, $5 per square foot, or $50,000 at 6 per cent—$3000 per year. Let us assume that this property is improved with a seven-story building, size 100x100 feet, 90 feet high, containing 70,000 square feet, or 900,000 cubic feet.

The building is of reinforced concrete construction and has a carrying capacity of 250 pounds to the square foot, with passenger and freight elevators, automatic sprinkler system, low pressure heating plant. We shall further assume that the building cost $3.50 per square foot, or 27.2 cents per cubic foot, both of which would equal $245,000 at 9 per cent, or $22,050, giving a total income from the land and building of $25,050 per year net to the owner. The total investment is:

Land	$ 50,000.00
Building	245,000.00
Total	$295,000.00

If the appraiser knows the value of a building such as I have described and the usual percentage which owners charge on the basis on which the ground was leased, by determining the building value as I have illustrated above, figuring it at 9 per cent, capitalizing the difference between the two, which will give you a ground rental of $3000 per year, which, calculated at 6 per cent, would give a ground value of $50,000.

Often Shows Real Land Value

By using this method the amount does not always represent the true land value, but it is another very interesting method which can be employed. It is surprising how often it shows the real land value. Now we could consider this same type of building rented to miscellaneous tenants where heat and elevator services were furnished by the owner and where the owner pays taxes and insurance. If an appraiser is familiar with and has records of the carrying charge of building of that type he can, by figuring it backwards, arrive at the same valuation. This is simply a method of proving an appraisal to my mind and is not conclusive.

The Influence of Co-operation

The character of our business has greatly changed during the past 15 years. I really believe that we are rapidly approaching a professional standard; that each succeeding year we are employing better methods in the practice of our profession, and that we are attracting a very high caliber of men who have a profound respect for our business. In fact, several universities have included real estate as part of their educational curriculum.

I firmly believe that the public is showing **more faith** in Realtors and that it is what we are constantly striving for. I believe that these changes, most sought and desired conditions are being brought about by our local, state and national organizations. We certainly should show our appreciation by supporting these organizations and their officers, who are doing so much to improve our practises at a big personal sacrifice, to the fullest extent. We owe our association, the public and ourselves our most earnest endeavor to so conduct our business that we will not only retain these bettered conditions but that we may raise our standards to even a much higher plane.

I was reading recently an article by Griswold in the "Round Table of Business" in which he says that the public's good will is the greatest asset of corporations. I believe that it was taken from a sermon by Dr. Frank Crane, in which he said that the dumbest thing in the world is a dumb corporation, and there is a paradox in the fact that a corporation directed by brilliant executives is highly successful when the success of that corporation is only measured in dollars and cents, with a complete disregard for public favor of good will. He went on to say that today every large and successful corporation has respect for and covets the public's good will.

Appraiser Must Have More Than Ordinary Preparation

I want to say that real estate appraising is a very important responsibility. So much depends upon an appraiser and, as I have emphasized, he must have more than an ordinary preparation and his opinions should always be based upon facts, giving complete consideration to the market value of the property.

Appraisals are used in the settlement of estates; they determine the sale price of property, the rental value, book value and very often are used for government purposes—inheritance tax purposes and the determination of the profit tax to be paid. It is evident that if off-hand opinions are given, it may be the means of working a decided hardship on those who are selling, buying or loaning on property.

Worthless Unless Accurate

I believe that an appraisal is worthless unless it is accurate, but it may be more than worthless; it may work an actual injury, or financial loss, therefore our opinions should represent the highest degree of thought. We should try to reach the superlative. I believe that human beings are the only ones who can be accused of mediocrities. Birds and animals come nearer to reaching the superlative than a great many human beings. I have seen instances where birds would either tear down their nest or abandon it altogether rather than use a nest which had imperfections.

Let us try to reach this stage of perfection in our appraisals before we actually give an opinion. Many times I have declined to make important appraisals in a hurry because I felt that I could not do the work to the best of my ability. At least take sufficient time to consider all of the facts necessary in connection with the making of appraisals before your opinion is given out.

(Mr. Loeber will, upon request, furnish additional copies of this article. His address is 1501 Conway Building, Chicago.)

Discussion:

Chairman Cody: After listening to Mr. Loeber's excellent paper, we now understand even better why he has just been chosen as vice-president of our national association. (Applause).

Stabilized Valuations for Bond Issues

We all recognize the dangers, as pointed out by Mr. Loeber, of trying to use general formulas in this appraisal business.

But here is one way a house in Chicago is figuring its standard bond issue loans today, as reported in the "Economist":

"During the past three years, while building costs and rentals have been abnormally high, we have given constant careful consideration to the safety of our bond issue loans.

"Speaking in a general way, we have reached what we term a stabilized valuation in each case by discounting existing cost of building about 20% and by discounting existing actual gross

rentals about 25%. We have estimated that rentals would not ultimately go back entirely to a pre-war basis, but that they would stabilize at about 25% above the pre-war basis.

"In conservatively estimating the rental value of a property, we have, therefore, first discounted existing rentals 25%. We then take 60% of such stabilized rentals as a fair net annual return. We capitalize this 60% result on a 10% basis for all ordinary bond issue loans, such as apartment buildings. We loan up to 70% of such stabilized value. We require all loans to be amortized by partial principal semi-annual payments beginning in the case of a completed building one year from the date of bonds, and in the case of a construction loan, eighteen months from the date of bonds. We believe loans negotiated strictly within the limits of the foregoing formula, will prove uniformly safe to the investor.

"A valuation figured substantially on the above formula, will justify a loan of between 50% and 60% of present actual cost of land and improvement, which valuation would be justified by actual rentals to date.

"We do not regard either existing building costs or existing rentals as stable but consider them abnormally high and reach our valuation as above stated, on a basis that we believe will be consistent and continuously conservative."

The chairman of our appraisal committee, who will speak to you now, has had long experience in real estate and appraisals. He is an officer of one of the largest trust companies in Minneapolis, and I am very glad to introduce to you Mr. A. C. Dannenbaum, of Minneapolis.
(Applause).

Mr. Dannenbaum will take the chair and answer any questions on appraisals, before we take up the next subject.

Tables Based on Actual Experience

Question (Massachusetts): These tables which the appraisers use are tables which, I believe, are worked out on the basis of facts. Take, for example, the Somers Table, to which reference has been made, and to the Hoffman Tables, and to the Hoffman-Neill Tables, and others. I wonder if there is anybody who can tell us how many cases the tables have been based upon. That is, I assume they have been based upon actual cases or actual facts and certain averages taken.

Take the Somers system, which is shrouded in so much mystery. I would like to know, if I were using that table as an appraiser, whether that is a mythical number, or whether that has been based on facts, and on how many facts it has been based.

Mr. Dannenbaum: I think the Hoffman rule was based on about ten thousand. I don't know about the Somers, although I have talked to Mr. Somers a great many times.

Question: How about Plydell?

Mr. Dannenbaum: I read somewhere in Bernard's rules, he made his tables on the basis of many hundreds of actual sales in Baltimore. I I understand they are all based on Baltimore experience. I never heard the figures on Plydell. I heard that Judge Neill's rule, which is called the Hoffman-Neill rule, was based on many thousands.

Can Land Have Two Values?

Mr. W. E. Coffman (Galesburg, Ill.): I am from a small city of about thirty thousand. We find these tables are not practical in different towns, and I think that is true everywhere. Where they are worked out in cities of different sizes, or of the same size, say one hundred thousand population, we might get so that we could use them, but we cannot use them very much in our town. But, I would like to ask this question: Is there more than one value to be put on a piece of property?

Mr. Dannenbaum: No.

Mr. Coffman: What would you do in a case like this: A bond house down east writes to a mid-west real estate board for an appraisal for the purpose of consolidating, for instance, two electric lines. They made the valuation of the electric line, and then the bond house comes along with a telegram and say they want the replacement value?

Mr. Dannenbaum: What do they mean by replacement value? We have been through that in Minneapolis. There is no such thing as replacement value on real estate, as it does not wear out.

Mr. Coffman: I think it is generally understood what the replacement value is.

Mr. Dannenbaum: On land?

Mr. Coffman: Yes. For instance, the electric light plant is situated within four blocks of the business center, on a railroad; they have switches and all conveniences. In other words, what can you replace that for? The Government asks the same about railroads; we don't place the value

on the right of way, we give them the value of the property. But, in this case, if they could sell the electric light plant, what could they buy another spot for?

Chairman Cody: A spot as conveniently located?

Mr. Coffman: Yes. Are there supposed to be two values on that piece of ground?

Mr. Dannenbaum: No.

Mr. Coffman: You have to get around it some way.

Statement (Canton, Ohio): I believe it is possible for land to have more than one value, depending on the purpose for which it is going to be used. A vacant lot may be used for a dwelling house and have one value. It may be used for an apartment house and have a greater value. I think the same thing might apply in the case of an electric terminal. It might have a value for that purpose and another value for a shop. I believe an appraiser going out to appraise it might be instructed to appraise it for a particular purpose.

Mr. Dannenbaum: You are supposed to appraise it for the best possible use the property could be put to.

Statement (Canton): No, not necessarily. Suppose I wanted to buy that for some certain purpose. It is worth so much to me for that purpose. Another man wishes to buy it for another purpose. If I am hiring an appraiser to tell me the value of that, I want him to tell me how much it is worth for the purpose I want to use it for.

Chairman Cody: Mr. Dannenbaum refers to the fact that his valuations on vacant have been based on the best use to which the property could be put; that is, the highest utility. As to improved property, we often hear appraisers speak of the fact that a certain type of building on a certain piece of land gives it a lower or a higher value than it would have if otherwise improved.

Effect of Pedestrian Traffic

Mr. W. S. Kinney (Canton): In all these books on appraisals, I can find no rule given or anything said about the value of pedestrian traffic passing down-town business locations, and I wonder if anybody could give me information in regard to the way the pedestrian is considered in putting a value on a retail location?

Chairman Cody: Houses that supply the chain store locations, have made a thorough study of that subject. I know the corner of State and Madison, Chicago, has been the subject of many investigations of the number of people passing there, and the effect on its value. I think you should correspond with Mr. Mark Levy, of Chicago, who can give you some interesting information on this topic.

(See article by Mr. Levy on page 108.)

RENTAL VALUES

By MARK LEVY, Mark Levy and Brother, Chicago

THE development of business property has brought a number of representative brokers in the different cities of the country in contact with the many elements of determining rental values of business property.

Because of a keener analyzation of business property throughout the country, largely by comparisons and honest judgment, based upon a firm conviction of the broker in co-operation with the merchants—and I say "merchants" advisedly, and not "storkeepers"—higher values in rentals and naturally higher values of properties have been built up by the retail business.

Supply and Demand

Primarily, in determining rental values I know of no condition or principal factor that enters into this question more than supply and demand. Supply and demand make rental values or so-called market values. No other combination of elements of value can force values up or down compared with supply and demand. If the supply of stores, space or buildings is less than the demand, then values go up. First values will increase—then prices—then income—and the greater the demand and the more limited the supply, the greater will be the advance in values.

Let us take a block on any of the streets in any of your cities that has one or more stores or buildings vacant, available and for rent. What is the result? Rentals will come down and then values, because owners, agents and brokers, as well as the merchants or prospective tenants, the loan men, buyers, and all down the line, have a depreciated opinion of the value of the property in this particular block. The result is perfectly natural because the owners and agents, after a certain period of experience, will begin to weaken, either because of necessity or because of good judgment, and they will then demonstrate their anxiety to rent by offering at lower prices.

Realty Values

Real estate rentals and values are the greatest where there is the greatest concentration of purchasing power of the people. Business real estate is valuable only in the degree that it is in the convenient pathway of the maximum number of people and the use that same can be put to. Business realty that is most valuable is in the location that attracts the greatest number of people who purchase; therefore the class of buyer is an important factor.

Increasing population makes increasing realty values.

Checking Passers-by

It has been said that the United Cigar Stores Co. used to follow a policy of checking locations, but I am informed that they do very little, if any, checking or counting of the people who pass a certain location, which they may be considering leasing. This, perhaps, is due to the fact that their experience and judgment now enable them to judge more readily than before. When one location is being considered in comparison with another, and time permits, counts under the right conditions, same hours, same weather, as well as the same day of the week, is important. Counts do not always determine rental values because there are elements entering into traffic counts, such as whether the passers-by are the buying class or not, as well as the character of the buyers.

You will find, with a few exceptions, the best merchants in the best locations. If it is not the best, they make it so because of their business pulling power.

Usually, one side of the street is better than the other, particularly the shady side of the street in the afternoon, as the great volume of business is done in the afternoons.

People follow the line of least resistance, making their purchases from the stores located in the direct line of their travel.

Count

The last count, as far as I know, was that 210,000 people passed the southwest corner of State and Madison streets, Chicago, in 16½ hours. Thirty-six thousand people passed this intersection an hour during the rush period, 65 per cent being men and 35 per cent being women. At the southwest corner of State and Monroe streets, 135,000 people passed in 16½ hours, the greater percentage between the hours of eleven and four being women. On the west side of State Street, between Adams and Quincy, there were 115,000 passers-by in the same time as stated before. The greater percentage now are men, but this is fast swinging over to women.

Women's Stores

Stores dealing in women's wearing apparel command a higher rental than stores dealing in men's wear, and they are in greater demand. There are more women's than men's stores, the

reason being that the stores dealing in women's wearing apparel make larger profits than do the merchants dealing in men's lines. This is, to some extent, because the women's wearing apparel changes more with the styles and fancies, and the merchant is obliged to get larger profits to take care of stock going out of date.

Corners are worth a great deal more than inside stores on account of the double traffic, greater window display, and better advertising facilities.

Pedestrian traffic makes rental values and transportation facilities affect pedestrian traffic.

Quite frequently, it is found that in the small towns and outlying sections of the big cities, the great volume of business is done on Saturdays, especially Saturday afternoon and night. These are very good times to take counts. The more traffic counts are taken, the more accurately can be determined the suitability of a location.

How Are Rental Values for Business Properties Determined?

There are many elements to be considered in determining rental values, the same as are involved in determining the market values of property. However, I believe that the question of determining rentals requires a broader knowledge of conditions than is required to determine property values, because it is necessary to have a more thorough knowledge of business conditions, business methods, and policies. As a matter of fact, it has always been my firm conviction in the valuation of business property, that the real test of values of business property, when improved to its highest and best use, meeting the conditions of the times, leased to logical, successful tenants, is the fair capitalized value of its net returns.

One must, in determining the rentals, be fair and honest with himself, after considering all the elements and factors of value.

Rentals are determined in many ways, namely: By figuring a fair return on the value of the property. By fixing a rental for the ground floor equal to the ground rental if the property is on leased ground, or its equivalent based on the value of the land. Sometimes the income of the ground floor will take care of the ground rental and taxes. By the number of lineal feet frontage at so much per front foot per annum, or per month in some cities. By so much per square foot per annum. By the estimated volume of business that may be transacted in the particular space. By comparisons with locations in the same block, in the next block, and in other parts of the same city as well as in other cities.

Other important elements in determining rental values of business property are: Is the plan of the building laid out properly? Are there one ore more steps to the store floor, or is the store level with the sidewalk? Are there any posts in the window or in the store? Is the store front modern and does it meet with the highest and best use. Is the line of business contemplated the logical business for the store? Is the window frontage of the store fairly representative of the area of the store? What is the ceiling height and is it high enough to permit a balcony? Has the store basement facilities? Has the store a rear entrance for receiving goods?

Rental Values

In determining rental values of business property among elements considered, other than those already mentioned, particularly in cities other than those that the brokers or merchants are thoroughly familiar with, is in common for the trained broker or merchant to consider the city's population—the class of residents—whether the people are largely skilled workers, as in South Bend or your own Cleveland, or whether the city's population is largely clerical, like Washington, D. C.—whether largely foreign or native population—the habits of the people as far as their buying power is concerned—transportation facilities and possible changes—the natural growth of cities—comparison of relative values—reference to the local newspaper ads—the amount of lineage used by merchants—analyzed bank deposits, as in such cities as Detroit and Tulsa—the volume of business transacted—surrounding neighborhood and drawing power. Learn the main industries and number of industries—whether it is a man's or a woman's town—not overlooking the kind of merchants in the block and immediate vicinity where the merchant contemplates locating—whether the location is centrally located and in the immediate vicinity of other large advertisers, thereby reducing to some extent the amount of advertising that may be required to pull the business.

In other words, the merchant cannot afford to pay as much rental for a location that is off the main shopping district a block or two, requiring the merchant to spend more money in advertising his business and location, than he can pay for a 100 per cent location.

The Terms of Lease

Rental values are also determined by: The length of lease, the terms of the lease, the effect of a cancellation clause and its conditions, the assignment provisions, the fire clause, reference, rebuilding or cancellation, and other conditions

which are elements entering into rental value of business properties.

The concern having a number of stores in any city, or in a number of cities, has its business so organized and systematized that it can determine what its rental and operating expenses cost in the way of percentage in proportion to the volume of business transacted. The trained merchant will invariably estimate the volume of business he anticipates can be transacted by him in the particular location, and from his knowledge of costs will fix a maximum rental that he believes he can afford to pay. This accounts for many high rentals that seem to be out of line with rentals paid by other merchants in the vicinity.

Owner's Interest

I could illustrate a number of cases where it is the owner's interest to make leases on a fixed percentage of the volume of business. You have all had cases where an owner has said: "I want so much rent for the premises." Perhaps you and the merchant do not believe the space is worth the rental asked or can be obtained. While the merchant is willing to rent the space at a fair price, he is not willing to take the chance at the price fixed by the owner. When circumstances such as this arise, a good plan to follow, if you are doing business with the right sort of tenants, is to let the owner establish his confidence in the particular property by taking this position—"If the tenant can't do the volume of business to warrant the rental asked, I don't expect him to pay the rental, but, if he does a larger volume, I expect a larger rental." In other words, the owner takes the position that he will take his chances along with the tenant on the volume of business and the rental to be received. We do advise, however, that there should be a minimum fixed rental in addition to a fixed percentage when leased on a percentage basis.

Logical, successful merchants, who have the right kind of an organization and ample capital to promote and carry forward their business, are justified in paying a larger rental than others, in order to obtain 100 per cent locations.

Business rental values are affected by the market price of commodities, merchandise, credit, expansion, industrial problems and general business conditions.

Why Some Rentals Appear High

We will assume, for the sake of argument, that the average term of a business lease is ten years. The prudent merchant will add to the rental he pays the landlord, the amortization of the cost of his fixtures and equipment, including the cost of alteration and the cost of making improvements when required by the lessee to be made and have same absorbed during the ten year period. We find, too, that the amount of investment required in many businesses is also an important consideration to the tenant in determining the rental. Of course, we have had many instances where we have told the tenants we do not believe the space is worth the rental asked, or that it is only worth so much. Then we have had the merchants say: "Well, I believe we can do so much business and we ought to make so much net profit." Under such circumstances we feel justified in saying to the merchant: "Well, you ought to know your business, and if you have confidence that you can do what you say, then you can afford to pay the rental asked; in other words, pay a part of the profits as a bonus for securing the particular location that will enable you to make so much profit."

What may seem to be a high rental for one merchant, or for one line of business, may be a low one or a reasonable one for another merchant or another line of business.

Renting of Departments

As to the renting of departments in some of the large department stores and drug stores and even in the specialty shops, this is becoming universal. While the rentals paid vary, they are usually on a percentage basis. I believe that the average will run approximately 10 per cent of the volume of business. This is usually outside of the advertising cost and help.

Percentage of Rents to Gross Sales

The following estimates are taken from various sources and experiences and represent the percentage that the average concern can pay as rental on the gross business, according to our experience, observation and the last reports we have obtained:

Rental in Percentage on Volume of Business	Per cent
Automobile agency	2
Department stores	3-4
Men's wear	5
Five and ten cent stores	5
Clothing	5
Credit clothing	8
Shoes	8
Men's hats	8
Cigar stores	7-8
Hardware	7-9

Furniture—Cash, 5 per cent; credit	10
Auto accessories	10
Waists	10
Women's wearing apparel	8-10
Specialty lines	10
Drug stores	8-10
High class theatres and hotels	8-10
Restaurants (because of longer hours)	12
Millinery	12-15
Florist	12-15
Jewelers	15-20

A few of the names of some of the representative chain store concerns and the approximate percentage of their volume of business that they pay as rentals are:

	Per Cent
Feltman and Crume, shoes	1½
Sun Drug Company	7
Ward Shoe Stores	7
Schrafts Candies and Light Lunches	7
The United Drug Stores	7
The Owl Drug Stores	7
National Shirt Shops	7-8
Raike, Hageman Drug Company 3½ to 11 per cent, average	7½
Mirror Candy Stores	8
United Cigar Stores	10

As a general statement, most retail merchants consider 10 per cent of the gross business as a top-notch rental overhead. Some, however, as outlined, do not exceed 7 per cent; while in such lines as millinery, jewelry, and some women's wearing apparel, they can pay as much as 15 per cent of their gross business as rental. I would say that the average advertising expenses for china store concerns having 100 per cent locations figure about 2 per cent of the gross business—therefore, most of the concerns, generally speaking, would figure 10 per cent as overhead for rent and advertising. Drug stores can pay a greater rental now than they formerly could because of the great increase in the fountain business in the last few years. I am informed by Mr. Charles C. Nicholls that there are two fountains in New York City doing a business of over $2500 per day each.

The return that the rental will allow as a rental percentage charge is greater in a big city than in a smaller one, for obvious reasons.

Competition

We have found in renting stores and buildings that merchants today want to locate as close to other successful merchants as is possible. This is proved by the fact that in any big city business houses in the same line now group together.

Take for example, Chicago. The furniture stores are mostly located on Wabash Avenue within a three-block radius; the piano stores on Wabash Avenue, within two block radius; the banks in the La Salle Street district; fire insurance companies in the same district, and especially so in one 22-story building of 200 feet square, which is filled entirely with insurance offices; and also in other buildings; there are nine big department stores on State Street; automobile sales rooms are along South Michigan Avenue; theatres are located in the downtown section known as the Rialto; and between Madison and Monroe, on Dearborn Street, in one block, we have seven retail shoe stores and four hat stores.

It is not true that there is just so much business to be had, and that a rival cuts your trade in half. As a rule, the more merchants and Realtors, the more trade and realty business. A god lively competitor will increase your customers and clients. Two grocers in the same block will do more business than if there were only one, and if the other grocer is a good one he is a more valuable competitor to you than a poor one.

I am reminded of the wisdom of the late Marshall Field, recognized as perhaps the greatest merchant of all times. When he owned the southwest corner of State and Madison streets, Chicago, Schlesinger-Mayer (later succeeded by Arthur Selfridge, now London's greatest merchant, who in turn was succeeded by Carson, Pirie, Scott & Company), offered to lease the property for a department store.

Mr. Field called in a number of his department managers, and put the question up to them, whether he should make a lease of the property to a competing department store. After a lengthy discussion the department heads said, "No, don't rent it to them." Then Mr. Field said, "I am going to rent it to them anyway—because if we can't do business and meet fair competition, then it's time for us to quit."

He did, and everybody has been doing more business ever since.

Rental Values of Business Property

A tenant can pay almost any price for rent, provided his sales volume is big enough to take care of it and keep the percentage of his rent to net sales at what the average should be for his particular business.

The question is sometimes put, "Can the little fellow compete with the big concern, or is he going to be driven out?"

The answer is that there are a large number of small stores always competing successfully with the big stores. The reason is that the successful little fellow can watch his stock turnover, and if he is in a community that has a large volume of buying power he is not going to stay small—he grows and eventually keeps getting bigger until he has a big store.

The Question of High Rentals

On the question of rentals of business property throughout the United States, whether in a large city or a small city, rentals are high as compared to pre-war prices, due to many causes, primarily because we are doing business on a higher level than heretofore. The laborer and everyone else is educated to a higher scale of compensation—and it is much harder to come down than it is to go up.

Will Present Business Rentals Continue?

This question is rather a large order, and I am not a prophet, but my best judgment is taken from my experience and observation—that keen merchants are making leases from one year to five years in advance on locations they want, at substantially increased rentals. I will admit that rentals seem to me high, and I often wonder how merchants can pay them. But we find that one merchant can pay more than aother due to many reasons. Some merchants pay a very high rental for strategic locations. Perhaps one, two or three prominent locations in the large cities of this country do it for advertising purposes, or for monuments of pride, even though they do not expect to make any money, but at times the volume of business of these strategic locations is so large that they cannot help but make money. This accounts for the merchant who has had more than one store paying a higher rental than the merchant who has only one store—because the merchant with one store must make his living and his profit out of one store, whereas the merchant with several stores can afford to make a smaller profit on each store.

I am in sympathy with any proper movement that will lower the general level of living costs, but I believe, considering the underlying causes, that high rentals, speaking generally, will prevail for several years.

Under the survey of business property rentals in 245 cities and counties of the United States and Canada, as compiled June 1, 1923, by Herbert Nelson, our executive secretary, only 6 cities showed a downward trend; 26 cities stationary, and 170 cities showed a marked increase.

Personally, I cannot see a permanent reduction in business property rentals until the heavy demand is withdrawn and until we have lower building costs, primarily labor costs, which represent approximately 80 per cent of the cost of items entering into construction from the raw material to the completion of the building. I see no lower labor costs until living costs are reduced materialy; until freight rates, coal, income taxes. general taxes and maintenance and operation charges are lowered.

How a Merchant Should Handle His Competitor

It is a mistake to suppose that you have to fight your competitors. Nothing was ever permanently gained by fighting; for fighting of any kind is pure destruction. Your competitor does not have to be your enemy. He can be your friend.

Competition does not kill trade, it builds trade, stimulates and makes new trade.

This is based on the natural law that no one person can suit everybody. No man can get all possible business in any community. His personality attracts some and repels others. Wherever there is a lot of business for one man, there is business for somebody else.

Don't hate your competitor. Hate is always expensive. Get acquainted with him. You may learn something. What applies to the merchant equally applies to the Realtor. We have found that the more business that prevails in any other business—that the usual transaction pays the usual price, and there is more money to be made over a long period of years—more satisfied clients—and more enjoyment to be had out of your business, which after all is worth something, out of loans which are not marked as extraordinary in any way.

Don't knock your competitor. It sounds bad and is bad. Be a good sport. Play the game. Keep good natured.

Someone well said:

"For when the Great Scorer comes to write against your name, He writes not what you won or lost, but how you played the game."

Competitive merchants now believe in creating a center for their line of business as against the old idea of being some distance away from their competitor.

"Competition Is the Life of Trade and It Is the Survival of the Fittest"

Beat your competitor if you can, but remember, that the surest way to beat him is to know all about the properties you sell, sell better properties, lease better properties and give prompter, more reliable and dependable service.

Don't fight by cutting commissions or charges for services rendered. Keep your scale of charges fair—commensurate with the service rendered.

There is business enough for you and your competitor, all you have to do is to go after it. As a matter of fact, property and space for rent must stand on its own merit. Different methods and different considerations are taken into account by merchants, owners, agents, and brokers in arriving at rental values. I am safe in saying that no positive set rules can be used in every case. It is a case of good judgment—what one of my friends calls **"Horse Sense,"** based on Experience and Comparison.

You have listened to a long discussion of How to Determine Rental Values for Business Property, **but the meat of the whole question is summed up in the judgment of a reliable, experienced, sound and practical real estate broker whose services are invaluable to the merchant seeking a location.**

THE LAND CONTRACT AS A FINANCIAL ASSET

LEO C. VAN HECKE, Chairman, Pontiac, Michigan

OUR aim has been to collect, from as many sources as possible, information on present methods of cashing land contract equities, together with criticisms and suggestions.

Five hundred letters and questionnaires were sent to Realtors and Real Estate Boards thruout the United States and Canada.

Reports From 143 Boards

The results were gratifying. One hundred and forty-three boards in 37 states and provinces made comprehensive reports. Intelligent criticism and suggestions and an earnest desire to help the committee were apparent in all.

The compilation of replies necessarily has taken a narrative form. Attempts to tabulate facts and statistics proved impracticable.

Your committee has sought to make its report brief, but any further boiling down will be at the expense of clarity. Indeed, the report, to make effective reading, needs 5,000 additional words in elucidation.

We have tried to view the various problems and corrective suggestions in the light of public service, and in so doing purposely have overlooked the vendor who may have an occasional contract to sell, but whose chief activity lies elsewhere than in Real Estate building. Our report is addressed to those Realtors who are devoting their lives to constructive real estate development.

Outline

I. INTRODUCTION

1. Definition.
2. Historical.
3. Extent of use.
4. As a financial asset.

II. DEFICIENCIES AND CORRECTIVE METHODS

1. Small, frequent payments.
2. The early-maturing mortgage.
3. Amortization of first mortgage.
4. Small cash payment.
5. Inflated prices.
6. Difficulty of foreclosure.
7. Possibility of default.

III. CONCLUSIONS

IV. RECOMMENDATIONS

What Is a Land Contract?

A land contract is an agreement to purchase and to sell a piece of real estate, under the terms of which the vendor retains the title, including the right to mortgage the property, and the vendee gets possession. The vendor agrees to deliver a deed after certain payments have been made and the vendee agrees to make such payments.

Its History

The land contract is an elaboration of the familiar preliminary contract and has been developed through pressing necessity occasioned by changed conditions. Ever since the institution of property rights in real estate the possessor or tiller of the soil has been safeguarded by statutes designed to protect him from the wickedness of the money lender and the land seller.

Times have changed, but laws are hard to change and courts are slow to depart from established precedents. The usury seeker has become the modern financier, whose funds are vitally important to creative real estate development, and the "land shark" has been replaced by the builder-Realtor, whose services likewise are creative.

The builder and the banker who construct a modern home unquestionably perform a greater service to society than does the buyer through his act of purchasing and paying down a few hundred dollars, and yet the small-term purchaser has continued to claim and take legal advantages entirely disproportionate to the service rendered. Statutes enacted to foster real estate development proved inimical to the superior creative forces of banker and builder. Out of this unjust application of statutes in themselves just, grew various forms of easily foreclosable conveyances, including the land contract, all of them sincere, laudable attempts on the part of builders, Realtors and financiers to obtain that measure of protection which is vital to their business and to which all agree they are justly entitled.

Extent of Use

The land contact is, of all the quick foreclosure devices, the most widely used. It is used to some extent in all states and in a number of states it is used almost to the exclusion of other methods. Reports received from 143 real estate boards in 37 states indicate that in the United States 45% of current dwelling sales are made on land contract, 14% of business property sales and 51% of vacant lot sales; in the middle Western states, where contracts are most extensively used, dwelling sales 65%, business property sales 20% and vacant lot sales 85%.

The land contract is essentially a device for handling easy term transactions and the increased sale of improved property on easy terms has greatly augmented its use and multiplied its importance. At one time its use was confined almost exclusively to vacant lots but now it often is used for business property deals of considerable magnitude. Its greatest present day usefulness, however, is in the sale of dwellings and in the report which follows land contracts on dwellings alone are considered.

More property is transferred on land contract than on any other device and yet the land contract is a questionable financial asset, slow to sell, subject to heavy discounts and generally unwanted by investors. Indeed, when it is subject to an early maturing mortgage, safe accounting requires that it be taken out of the assets and at least a portion of its face value considered as a liability.

Objections as an Asset

Why is a land contract, as an asset, so universally disapproved? The reasons are various but the defects are not incurable. For each and every reported defect a correction has been found in actual use. It remains only to list the objections and describe the corrective methods.

The well founded objections are seven: Small, frequent payments; the assumption of an early maturing mortgage; immediate amortization payments on first mortgages; too small a cash payment; inflated prices of property; the difficulty of foreclosure in many localities; and lastly the imminent possibility of default by the vendee.

These seven ailments are, to borrow a term from the medical profession, functional rather than organic. The land contract is a healthy, wholesome device capable of rendering unlimited assistance to Realtors and their clients and of providing justice and safety to homeowners and to financiers. In the plying of his trade the land contract is the Realtor's greatest single tool and his is the duty of fitting that tool for a bigger service to society. Its ills can be diagnosed and cured.

Small, Frequent Payments

The small, frequent payments, usually monthly, made in amortization of a land contract debt, require collecting, bookkeeping and reinvesting machinery that can be found only in organized institutions. These must and do constitute the market for land contracts. The small investor never has been and cannot be an appreciable factor. Many communities have private investment organizations while others have locally manned corporations which discount land contracts. More of these latter rapidly are being organized.

The local corporation, financed by the sale of stock, bonds or debentures, is the most successful and the most widely used method of financing land contracts. Its organization is simple. Bankers, builders and Realtors make up the organizers; a manager and one or two clerks can handle contracts running into the millions; small, inexpensive offices are suitable; a separate selling organization usually is provided or employed for marketing the stock or bonds; land contracts are bought at a suitable discount, usually 15% of the property sale price; and collections thereafter are made by the finance company.

Such companies, however, have not been uniformly successful. We often see them turning their funds to first mortgage investments or, in desperation, seeking automobile and other personal paper. The difficulties which beset them include the very ills to which the land contract is heir and which are the subject of this report.

The Early Maturing Mortgage

The assumption of an early maturing mortgage by the vendor's assignee is a fundamental defect. The Realtor must, to make widespread homeowning possible, grant credit for from five to twelve years, while he in turn must agree to meet his obligations in from ninety days to three years. The due date on his note or mortgage is, not infrequently, a mere formality. He expects to renew it, he must renew it, and fortunately he usually does renew it. His means of liquidation will not permit it to be otherwise.

The frequent renewals in this financial farce mean frequent and unnecessary expenses. Taxes and recording fees, office expenses, abstract costs and other mortgage incidentals are multiplied upon the Realtor as he strives to fill the awful gap between three years and twelve years. It is little wonder that few care to take an assignment of such a burden.

Remedy Is Longer Term Loans

The cure for this ailment obviously lies in longer term mortgages. These now are being offered in many localities by insurance companies and financial corporations. Most insurance company loans fall a little short of the time needed for complete amortization but some investment companies are offering terms as long as twelve years.

The issuance and sale of bonds by local finance companies has proved to be an admirable solution. Such bonds, secured by homes, are dependent for liquidation on monthly payments made by America's soundest citizenry, men and women who, to cease paying, must move their families, sacrifice their savings and abandon their home-owning ambition. They are a safe, sound investment and where properly issued have found a ready market.

Building and loan associations have aided materially in relieving the home financier of this mortgage renewal liability.

These several methods of longer time first mortgage financing now are in successful use and where used the land contract has stepped into a higher plane of financial usefulness.

Mortgage Amortization Payments

Immediate amortization payments on first mortgage loans are as objectionable as the early maturing first mortgage. A $2500 loan calling for 5% of the principal semi-annually takes out of the contract financier's hands practically all that he has received from the home-purchaser, the ultimate consumer, and renders the contract a worthless asset.

The underlying principles of amortization, getting the ultimate consumer out of debt and protecting the financier against depreciation, are sound, but furtherance of homeowning demands that the periodic payments go first to the man who created the home and, after extinguishment of his contract equity, to the reduction of the first mortgage. The deferment of the first mortgage payments makes possible a substantial increase in the amount of such payments when they shall be made and compensates the mortgagee for any advantage sacrificed.

Small Cash Payment

Too small a cash payment is a valid objection. The cash payment made at the time the contract is entered into should include:

1. The builder's profit.
2. Selling expense.
3. One year's depreciation.
4. One year's interest

Depreciation and interest are computed for the normal time required to repossess the property. Usually the down payment on a fairly valued property should be 20% of the purchase price and until this amount has been paid the equity lacks the substance essential to any saleable article. If a Realtor sells on terms lower than this he must be prepared to finance the transaction until the monthly payments equal the standard cash payment. Sometimes the purchaser's note is taken for a portion of the down payment and the contract thus rendered immediately saleable.

Inflated Prices

Inflated prices, whether of material, labor or builder's profits, hinder and kill the sale of land contracts. This is as it should be. A contract sold by a Realtor must represent as sound value as his properties. If a contract does not represent sound value it is not and should not be saleable.

Difficulty of Foreclosure

The difficulty of foreclosure or regaining possession of the property after default deters many organizations from purchasing otherwise desirable land contracts. The land contract was born out of this very difficulty but the courts, zealously guarding the land owner, have restricted its enforcement until in some jurisdictions it differs little from a mortgage.

Our land laws are the laws of an agricultural nation. Mortgage laws were framed for the farmer's protection. The usual eighteen months redemption period probably had its inception in a laudable desire to grant the farmer two crop seasons in which to make good his default. With the advent of the modern real estate operator whose business is the manufacture of better homes and the development of farming and orchard tracts, the safeguards provided originally for good, realty-owning citizens have become handicaps to an equally good class, the builder, the Realtor and the financier.

Legislative recognition of the real estate developer has been reluctant. The ghost of the almost extinct "land shark" rises to stay the hand of the lawmaker who would recognize the prominence and importance of the builder, but in those states which have reasonable land contract laws, 65% of dwelling business is done on

this form. Surely a device which, though still crude, meets the approval of 65% of the sellers and buyers in any community merits legislative attention to make it a stronger financial asset.

Lack of Security

The possibility of default by vendee and consequent reversion of the property to the financier, in other words, lack of security, may seem to be an insurmountable obstacle, but inquiry has revealed a growing practice of guaranteeing land contracts against default. The builder-vendor, himself a responsible business man, guarantees that each payment will be made. He must be notified promptly of default and on him falls the burden of enforcing collection or foreclosure.

That this is not too large an assumption of contingent liability on the vendor's part is provable by sound reasoning and has been proved in actual practice.

Realtor Vendor Should Manage Property

Continued management of the sold property is the very essence of such a guarantee. A manufacturer who borrows for new, labor-saving equipment and who by the installation of such equipment saves the money wherewith to repay the loan and the grocer who borrows to add to his stock and thus increase his sales and profits have received constructive, personal loans which carry with them the means of their own liquidation. This paper is gilt-edged but it is noteworthy that repayment depends primarily on management.

The money represented by a land contract equity is a constructive and essentially personal loan. Its personal nature is attested by the repeated efforts to restrict the vendee's right to resell. Such a loan carries with it its own means of liquidation, by the very power which the loan itself gives him, the home buyer is enabled to save his rent and together he and his loan pay off the debt.

Repayment, however, is as dependent on management as any personal loan made to a manufacturer or merchant. The original vendor, the expert Realtor, is the proper manager of this business, his vendees are new, untrained assistants. Too often, when the builder seeks a loan, he attempts to sell his business venture and to step out from under the burden of management. The contract buyer is not always a trained Realtor; the home buyer is hopelessly ignorant of realty matters. The position and the duties of the developer and the financier are as different as those of bank president and manufacturer; both are highly specialized callings and no amount of discount will compensate for the trouble which is sure to ensue when either is saddled with the duties of the other.

Seeking analogies in other fields, we find the financing of contract automobile purchases assuming national proportions; one can buy a piano, a washing machine, a vacuum sweeper, have his house wired, plumbed or furnished all on the contract plan and the almost uniform charge is less than a land contract discount. Much of this financing is done by endorsement, and the original vendor is held responsible for the vendee's performance.

Land contract equities generally pay out in full when held by, and collections are made by, the original vendor. In the hands of assignees they do not. An average group of contracts which will pay out in full if held by the Realtor will show a loss of from 10% to 20% to any financial institution attempting unaided collection. Hence the large discounts suffered on the sale of such assets.

The Why of Large Discounts

The loss is made up of, first, executive service, including management of the collecting organization, getting acquainted with the property and with the vendee and making adjustments from time to time. Much of this service can be avoided by the original vendor and the rest more cheaply and effectively performed by him than by the stranger-banker who has purchased the contract.

Second, legal service and court costs, the preparation of papers, examinations of abstracts and foreclosures of contract in the event of continued default are largely avoidable. Foreclosures are much rarer between the original parties than after the sale of the contract. The personal element so striven for by the most progressive banks already is present between vendor and vendee; the Realtor or builder is better situated to lend a helping hand to the defaulting vendee; he is, as a rule, closer to the vendee and always he is closer to the property; he can effect a resale at slight loss to the vendee where the banker's usual recourse is foreclosure and loss to all. The Realtor does this with little or no expense, perhaps even making a commission on the resale.

Lastly, interest and depreciation on forfeited property are the two largest items that are being paid for when a contract is discounted. A residence taken back during depression and held

for months accumulates an interest debt that is a dead loss. While this is as sure a loss to Realtor as to banker, the Realtor is equipped to make a quicker resale and suffers a correspondingly lower loss. Depreciation is minimized when the house comes back to the developer whose business it is to build, manage, repair and sell homes, but often it mounts enormously when the house comes back to the banker, who has little acquaintance with or taste for carpentry, painting and plumbing. To the capable Realtor a comeback is not a forfeited house to be sold at a sacrifice and the best made of a bad bargain, but it is grist to his mill to be refined and marketed.

Eliminate the Losses

Thus the losses which financial companies have found so inescapable dwindle in importance when the original vendor continues to own or supervise the sold property. During the period of amortization the property needs the management of a trained Realtor, and the vendee, making his first faltering venture as a property owner, needs the friendly advice of a trained Realtor. To look upon the property as security for so large a loan as the first mortgage and contract equity combined is folly; to make a personal loan to one hopelessly inexperienced in his new business undertaking is further folly; and these two follies account for 10% to 20% of the cost of many homes purchased on contract.

The elimination of these costly follies is possible. A loan to a responsible, experienced Realtor up to nearly his entire equity is safe financing, but he must not be released from the management of the property. He must be held responsible for each and every collection, for the repair of forfeited property and for resale and the substitution of a new contract after forfeiture. This amounts to a system of guaranteed contracts.

The use of land contracts as collateral and the making of personal loans to Realtors whose funds are in contract equities are direct recognition by the banks of the principle involved in land contract guarantees. In some localities sold contracts always are guaranteed by the vendor.

CONCLUSIONS

In conclusion, your committee believe that land contracts can be made more saleable by:

1. The adoption by local finance corporations of the safety features herein described.

2. The further organization of local finance corporations.

3. Elimination of the early maturing mortgage on dwellings.

4. Deferring of first mortgage amortization payments until vendor's equity is extinguished.

5. Conscientiousness on the part of Realtors in offering for sale only sound contracts.

6. The passage of uniform land contract laws assuring protection to vendor and vendee.

7. The requirement by land contract buyers of the personal guarantee of the vendor.

RECOMMENDATIONS

Your committee recommends:

1. That a committee be appointed to draft a uniform land contract law providing protection for vendor and vendee commensurate with their respective services to society.

2. That a committee be appointed to investigate methods of local finance corporations buying land contracts and suggest a standard plan for the organization and operation of such companies.

HOW BANKS AND MORTGAGE COMPANIES CAN HELP THE REALTOR

FRANK LINCOLN JOHNSON, Chairman, Coöperation with Brokers' Committee, Manager, Real Estate Loans, Powell, Garard & Company, Chicago

CHAIRMAN CODY: I could tell you all about the next speaker; about his thirty years in Chicago, in the mortgage banking business; his connection with Powell, Garard & Co., as manager of their real estate loan department, and his good work as treasurer of the Chicago Mortgage Bankers' Association. But the thing I really want to tell you is that he is the daddy of our division.

About three years ago we were taking a little stroll along that delightful board walk during the national convention at Atlantic City. Frank said, "I am sore." I said, "What's the matter?" and he said, "They haven't given the mortgage men any representation here. We have a lot of mortgage men in the association, and they are entitled to be heard."

That sounded good to me, and I passed the word to our old friend Tom Ingersoll, and with his usual open mind to adopt suggestions, Tom said, "All right," and at the convention in Chicago we had three talks on the subject of mortgages, and in 1922 the discussion of mortgages in San Francisco was arranged, and I believe the success of those meetings, backed by your support and interest, was the real start of the mortgage and finance division.

Let me introduce Mr. Frank Lincoln Johnson, of Chicago, as the father of our division. (Applause).

Mr. Johnson: If it should be true that I was the daddy of this division, the child has certainly grown to pretty good proportions. (Applause).

Must Have Adequate Return

There are two or three things in yesterday's speeches I want to say a word about. Mr. Reep gave you a splendid paper on second mortgages. However, as he gets along in this thing, I believe he is going to get more money out of it, if he is going to make his work worth while. We can't do these things for too little money, even though we don't want to do them for too much money.

Savings Bank Loans Are Limited

The savings bank has no right to loan its money up to a point where financial depression would endanger what does not belong to it.

Neither can it loan on mortgages money they should use for commercial loans, or other work, as required under the banking laws.

Aiding the Realtor

The National Association was started primarily for the realtor. The mortgage man was only brought into it when they found they could not do any business without him. The realtor could not get very far unless he could get the money. Not many of them have enough to do it all alone.

I take it, however, that help means service. What valuable service can we render to the realtor? Let me give you a definition of service: "Service is the price a man pays for his right to live and associate with his fellow man."

Only in so far as we are ready to serve are we of value in our profession or any other position in life. Another term is co-operation. I do not count co-operation the main spring of our successful service, because I think that is more properly represented by the forceful directing energy of the individual manager. But, co-operation is more like the delicately adjusted hair-spring, easily broken, but when broken must be repaired before the main spring can resume its steady activity.

There are a few rules I think the loan agency is not only justified in requiring but should require to make his service fair to both himself and the broker.

Require Written Application

First, consider no loans unless a written application is presented. This makes for satisfactory dealings between the broker and lender and avoids friction or misunderstandings which arise from verbal statements that may be forgotten, and puts both in a position to earn a commission if the loan is accepted.

Select Responsible Brokers

Second, accept applications only from brokers who are responsible and have personal knowledge enough of the loan applied for to make you feel it worthy of consideration. One of the greatest evils of the business is the irresponsible broker chasing up and down the street with a memorandum of what he claims is somebody's desire to make a loan. He takes up your time for nothing.

injures the borrower's prospect of making a loan, if it happens to be an actual requirement, and injures the reputable broker who gives his applications the attention they deserve.

Deal Frankly With Broker

Third, don't consider an application unless you are in the market for the class of loan presented. Save both your time and the broker's, by telling him you cannot handle it at present, and, if you know of any other house in the market to care for his needs, suggest he call on them. Those of us who are in the mortgage business, loaning our own money or funds intrusted to our care, should not try to take an application from a broker and then offer it somewhere else and so get a small part of the commission that belongs to him. Helping him with a suggestion will not keep him from coming to you with other loans, but will rather give him a higher regard for you and your office.

Protect First Broker

Fourth, after you have turned down a loan from one broker, don't let another who is a personal friend, persuade you to make it on slightly different terms and cut out the man who first brought it to you. That is, perhaps, hardly a necessary suggestion to make, but circumstances sometimes arise when conditions have changed before a loan has been placed elsewhere, and it comes back to you from another source at a time when you could take it on. If you want it, insist that the man who first offered it to you is satisfied with such arrangements as you can make or else pass it up.

Arrange Brokerage in Advance

Fifth, make the commission arrangements definitely with the broker at the time of acceptance of a loan and do not leave his compensation open to later adjustment, for it will likely bring a dispute and worthwhile friendships may be broken, or, at least, one of you will feel the other has been unfair.

I have just had a case where I purchased a large bond issue loan with an understanding that the broker bringing it to me did not have the loan direct, but had been authorized by another broker who did have the application to place it, and I agreed to allow 2% commission to take care of both.

The application was delivered but the broker having it said nothing about commission and neither did I. After the loan was opened, the man who had secured the application from the owner said there was a third broker who brought the borrower to him and he expected me to pay him also. Of course, I refused to do so, and have lost a friend whose office gets a good many applications, though he has no direct money.

Had I talked to both brokers originally about the commission, the one who brought it to me and the man who had the application, the trouble would not have arisen. I speak of this only to show the care needed in making arrangements with reference to compensation of brokers at the time of acceptance of loans.

Live and Let Live

Some offices in various cities have records of expiring loans and have their own solicitors out to get renewals or the placing of new loans; and a broker coming in with one of these loans will be told, "Our own office is working on that and we cannot take it from you." Personally, I do not think that is fair. If a broker has been successful in getting an application I do not think we ought to throw him out if we want the loan, even though we believe we are in a position to eventually get the loan direct, because we may be able to make special inducements to the borrower which are not obtainable elsewhere. Let's live and let live, and work together.

Where Realtor Makes Sale

I do not think a realtor making a sale where he gets a regular commission should expect the loan man to add to that profit by giving up part of his own, nor do I think that said realtor should get the writing of the insurance which is a definite part of the profit the loan man is entitled to, but the man who brings you satisfactory loans should always get fair compensation for services rendered.

Carefully Explain Refusals

The loan man should not be expected to accept loans just because they are some particular percentage of present value, neither should he take the position that because costs are high no loan a broker brings is right, but give fair consideration to offerings and reasonable explanations of refusals.

Status of Stability

We heard quite a little yesterday on bond issue loans, of the high percentage of values that some folks were loaning upon buildings, or real estate, and of the tremendous building boom that seems to be going on all over the country, that seemed likely to endanger the stability of these mortgage loans.

Let me say I don't think percentage is the only consideration in making a loan at all. But a good loan is a good commercial risk backed by good, ample security.

Producing Power the Prime Factor

The commercial banker loans a man money because he thinks he is able to pay it. Loan men make loans on real estate because of the ability of real estate to repay it. Of course, underneath it is the intrinsic value of it if he has to foreclose.

But, the ability of your real estate to repay, not only your loan, with its interest, but to give the owner a reasonable return for his investment, is a large measure of the basis upon which your loan is made. Your loan is made on the actual value, of course, but you have to determine that value upon the producing power of that real estate.

It may not be the producing power at this moment, but a fair producing power which you can determine is the definite thing which eventually pays your loan, anyway.

Labor Shortage

As to the building situation, don't forget one thing, that there is a tremendous labor shortage in the building trades in this country. Thirty years ago there were one hundred fifty thousand masons in this country. Today there are one hundred thirty-four thousand. There ought to be two hundred thousand to take care of the building operations to be carried on. There are places where building goes faster than it should, but when you average up the country, the expansion is not as great as it seems to be; neither must we face any immediate change in the loan situation.

Give Advice When Desired

There are, I presume, many other ways that occur to you whereby the loan house or bank may be helpful to the realtor, but there is only one other I wish to suggest, and that refers to building loans. If he desires it, be willing to give him the benefit of your knowledge and experience as to the feasibility of placing such a loan as he suggests under the market conditions with which you are familiar, even though you are not interested in the loan. I find many brokers who think they know more than we loan men about how our business should be handled, but, after we have given them a fair deal along the lines I have suggested, I think we have done our part.

Give Loan Man Benefit of Doubt

Just one more word to the broker: If you expect co-operation from the loan man, don't criticize the loans he makes for others, but give him credit for the ability to judge desirability from his own standpoint, and realize that, generally speaking, he would not have the money to loan unless he had shown reasonable judgment in the conduct of his business, and further, that he must make his own decision, not take yours, if he is going to stay in business.

It is said that "He who would have friends must be friendly," and it is equally true that he who .would have help must be helpful. (Applause.)

Discussion:

Commission and Brokerage

Mr. James C. Simpson (Norristown, Pa.): I would like to ask the gentleman what basis he works on, what charge he makes?

Mr. Johnson: My work is entirely along bond issues, Mr. Simpson. We place no single loans. It is a matter of agreement, but, generally speaking, the broker who brings in the loan gets one per cent.

Mr. Simpson: On the bond issues, do you take a certain basis of commission in selling bonds? I mean by that, most of our bond houses ask us how much they will get on a net basis. In other words, not a long while ago the Jetferson building, one of our new buildings, was bonded by Straus & Company, and I think they charge on the basis of ten per cent. In other words, they got the bond at net 90. The broker got two per cent, I think. Is that the usual basis worked in Chicago?

Mr. Johnson: The usual rate of commission to a broker in Chicago, is one per cent. I spoke of a special deal I had, where I had agreed to allow two per cent. Those were bonds outside of Chicago and I was willing to make that allowance. But, we rarely give a broker more than one per cent.

Mr. Simpson: Suppose the broker brings you the bond issue to place, what percentage does he get?

Mr. Johnson: If he brings me the bond issue, I buy it outright if I want it. I am not in the brokerage end of the game.

Mr. Simpson: Let us reverse it. Suppose you

have a bond issue and a broker comes to you and says he can sell so many of those bonds. Suppose your bond issue is one million dollars and he says he can use one hundred thousand. What will you give him?

Chairman Cody: One to two points on sales would be the average for selling a part of a bond issue.

Mr. Johnson: In the sale of ordinary mortgages in the years when I was in the banking division, we paid one-half of one per cent for the sale of a loan, and that seemed to be a usual custom among the mortgage houses of Chicago. We paid less for the sale of a loan than we did to have the loan brought to us.

Mr. Harvey F. Hambur (New York): I was interested in Mr. Simpson's reference to the Jefferson building in Philadelphia. I don't recali ever having made a loan such as he described. There is a difference between the east and the west. In the west, the broker pays the commission. In the east it is the practice for the borrower to pay the broker. I don't know of any place where the broker was paid two per cent.

Mr. Simpson: Well, it is a fact that he was paid in Philadelphia.

Mr. Hambur: What is the number of the place?

Mr. Simpson: 1015 Chestnut Street.

Mr. Hambur: We made that loan, but there was no brokerage commission.

Mr. Simpson: The broker got it.

Mr. Johnson: There is one thing sure. No matter who gets the brokerage, the owner pays it.

Mr. Hambur: The only reason for that, in negotiating the bond issue, it is found much better for the mortgage banker to make his negotiations with the borrower, and have the owner make his own negotiations. The banker always protects the broker if he says he has not received his commission, whatever was agreed upon.

Chairman Cody: Mr. Hambur, is it generally one per cent you pay in the east?

Mr. Hambur: In the east it is the usual rule that the broker is entitled to one per cent, but the borrower pays it. If the broker wants to exact more, he can make his own arrangements with the borrower.

Cubic Foot Valuations

Chairman Cody: Regarding the cubic foot values allowed on the average modern, mill-construction, apartment building. Mr. Hambur, would you say something on that point?

Mr. Hambur: As a rule, we do not make any loans on mill-construction apartment buildings. We are advocating, in order to prevent big catastrophies, that buildings must be semi-fireproof. For the average four and five story semi-fireproof apartment building, the basic price for well constructed buildings is about 45 cents per cubic foot; between forty and forty-five cents.

In some types of buildings, where they are efficiency apartments, the cost may run slightly higher.

Chairman Cody: What do you allow on reinforced concrete fire-proof buildings?

Mr. Hambur: That will vary, depending on the type of the structure—apartments with five and six rooms with a fairly good grade of finish, I suppose would run as high as fifty-five cents; the efficiency type of building, with in-a-door beds, and kitchenettes, will run up to sixty and sixty-five, maybe. The high-class apartments with excellent finish we are figuring on a deal now where it will run about seventy cents per cubic foot.

Mr. Norman Newhall (Minneapolis): In Minneapolis flat buildings of the type you describe, cost thirty to thirty-five cents per cubic foot, mill construction, three stories high. We do not allow them to build more than three stories high.

Collection of Rents

Mr. Newhall: I want to ask what your practice is as to the management of property; what protection you require as to the care and collection of rents.

Mr. Johnson: Management is allowed to remain with the owner or in such hands as he may direct so long as the building is properly taken care of.

We provide in our trust deeds the right to take over the building at any time it is not handled as it should be. So long as it goes along in a satisfactory manner, we have no disposition to interfere in any way with the desires of the owner in its management.

Some of the men in the renting business, as well as the loan business, require the buildings to be handled in their own offices. We do not. We do not want that end of it at all. We simply do require that they will handle it in good shape and will keep it up in proper shape. If they do not, we will proceed to take it over, and see that it is.

Mr. Simpson: That comes under your trust agreement, does it?

Mr. Johnson: Yes.

Use of Trust Deed Form

Mr. Simpson: Some people do not understand that trust agreement. As I understand it, when there is no mortgage entered into, only a trust agreement entered into, when he fails to pay his interest or keep up the taxes or insurance, you can step in and be able, under that trust agreement, to compel him to pay it; that is, you can pay it, and then compel him to pay it at a later date?

Mr. Johnson: You can do that under any ordinary mortgage. There is no special provision in the trust deed securing your bond issue, except the provision you need for the taking over of the building if it is not properly handled. You can put in some additional restrictions, for instance, for monthly deposits to retire your semi-annual interest and principal payments, and for various sinking funds. Those are put into your bond issue trust deeds to amortize your loan more rapidly.

Mr. Simpson: The man signs a trust deed, in other words, and that trust deed is recorded?

Mr. Johnson: Yes

Mr. Simpson: Which takes the title of the property out of the man if he fails to perform the covenants in that trust deed?

Mr. Johnson: Yes.

Mr. Simpson: In Pennsylvania the mortgage is recorded, and if he wants to collect the rents, he has to go through a foreclosure proceeding.

Mr. Johnson: He has to do the same thing with us, and it will take eighteen months to two years, if you don't have a provision in there to take care of it.

Mr. Simpson: The trust deed covers that and he cannot sell?

Mr. Johnson: He can sell just the same. It does not affect his title any more than a direct mortgage.

Mr. E. B. Woodruff (Cleveland): You were speaking of monthly sinking fund requirements?

Mr. Johnson: Yes.

Mr. Woodruff: For principal and interest?

Mr. Johnson: Yes.

Leasehold Loans

Mr. C. H. Corbett (Canton, Ohio): Do you make loans on apartments that are built on leased land?

Mr. Johnson: I do not, personally, no; not that I think they are not all right, as there are some mighty good leasehold loans, but, personally I have always stayed away from them as a matter of principle.

Handling Construction Loans

Mr. Findlay (Cleveland): In regard to the payment of funds, do you pay them as the building progresses, or do you require the builder or the owner to put in the amount necessary until the proceeds of the issue will complete the building?

Mr. Johnson: The borrower must put in his own money up to where our funds will complete it free from liens. After that we pay out as construction proceeds.

Surety Bonds

Mr. Findlay: Do you require a surety bond?

Mr. Johnson: Well, sometimes, not as a rule. I made one loan for seven hundred thousand dollars where I required a surety bond for the completion of a building at a definite price, that was the actual contract price, and it had to be completed.

That surety bond saved me a lot of trouble, because there was a big strike during that construction and we had a lot of bother. I wondered at that time, if the surety bond was any good. The surety company did use their influence, and they brought that deal through without any trouble.

Foreclosure Proceedings

Mr. Pilcher (Huntington, West Virginia): Do I understand you to say it requires twelve to eighteen months to foreclose on a mortgage or trust deed in your state?

Mr. Johnson: Yes, the period of redemption in our state is twelve months; the judgment creditor has three months additional, that makes fifteen. It takes three months to get into operation, and it will take eighteen months before you can get title in Illinois.

Mr. H. E. Pilcher: In West Virginia we can get possession in thirty days.

Mr. Johnson: We can have a receiver right away to take over the property physically, as far as its management is concerned. Under our bond issue trust deeds, we do not have even to ask the court for that permission, but in case of a fight we would undoubtedly have to get a court order. But, as far as getting actual title is concerned, it will take you eighteen months to get it.

Question: May I ask if you can take possession of the property without applying to the court?

Mr. Johnson: Under our trust deed we can take over the management and renting of the building at once in case of default. You will have to go in eventually and get permission of the court to do that, but we don't have to start with a court order.

Question: How do you prove default; the fact that you do not receive interest?

Mr. Johnson: Yes, the terms of your trust deed provide payment on a certain date. If it is not there, it is in default. If other terms are not met, it is in default. The insurance must be taken care of and taxes paid. If they are not paid before the time provided, they are in default.

Amounts of Bond Issues

Mr. Adolph Berman (Philadelphia): What is the minimum loan on bond issues?

Mr. Johnson: Some of our outlying banks, that can sell a bond issue without going outside, but sell it to the people who come into the bank, will make bond issue loans as low as fifteen to twenty thousand dollars. They can do it. It is good business, and they want it. However, most of the loan houses don't go under one hundred thousand dollars.

Protection Against Mechanics' Liens

Mr. Simpson: What is your rule about mechanics' liens? What protection do you get from the party who gets the loan?

Mr. Johnson: We require, first of all, a sworn contractor's statement and a sworn owner's statement. Under the law, if these are not correct, we can send them to prison for obtaining money under false pretenses.

Then, as money goes out, we get waivers of lien. That statement which we receive originally gives the name of every contractor and the amount. Those waivers of lien must come in as our money is paid.

Mr. Simpson: In Pennsylvania we compel all sub-contractors under the contract to file a release, and that is filed before any work is done.

Forfeiture Provisions in Deeds

Mr. George H. Taylor (Chicago): There is one matter I want to bring before the members present, and also get it into the record as a message to take back to your various communities, and that is the question of restrictions in deeds. Sub-divisions are laid out with restrictions which are very proper, and I am thoroughly in accord with many of the restrictions that are put in, as they protect and tend to stabilize values.

But, many of them go farther and say—and this is not anything new; it has been going on for many years—that if any of these restrictions are violated, the property is forfeited and reverts to the original owner. That is not necessary. You can put all the restrictions you want in your deed. You can say that anybody that buys that lot will have to go to church on Sunday, if you don't go as far as to say that if he does not go to church the title is forfeited and reverts to the original owner.

If you do put that forfeiture clause in, you eliminate the insurance companies of this country from loaning on this property because they will throw up their hands.

All the loan representatives of insurance companies will tell you that if you have that kind of a clause in your deeds, you will have to go somewhere else to get your money.

Commissioners of insurance of the different states will not pass loans of that kind, because they involve absolute forfeiture.

There is one city in the State of Illinois, where nearly every deed is encumbered with a forfeiture clause.

This city was platted and laid out by one of the colleges in Illinois and practically every deed in that city has a forfeiture clause in it. There is no insurance company that can loan a dollar there. The citizens out there are starting a movement to eliminate that forfeiture clause.

Question: Can you cite any case where property has reverted to the owner?

Mr. Taylor: No, we cannot go that far; we cannot take a chance.

Mr. Corbett (Canton, Ohio): It would be a mere joke to put in certain restrictions, unless there were a forfeiture clause, because there would be no way of enforcing it.

Mr. Taylor: We don't understand it so in Illinois. You have all the protection of the courts. You can get an injunction and bring suit for damages, and get all the remedies you need, without putting in the forfeiture clause. If you own a lot beside mine, and I violate the restrictions, you can enjoin me and sue me for damages.

Mr. Corbett (Canton, Ohio): I am very much interested in that statement, for I have a number of allotments authorized with protective clauses, and in every case I have had a reversion clause put in on the advice of counsel.

Condition vs. Covenant

Chairman Cody: Bear in mind the difference between a condition and a covenant.

Statement (West Virginia): In West Virginia we used that forfeiture clause for the reason that we have so many negroes down there, and that restriction is put in as a protection. However, we go further than that and say that this forfeiture is subject to any loan which may be placed on the property during that man's ownership.

Mr. Taylor: That is entirely different. In Chicago we have to go to the original owner, or original sub-divider, and get a waiver.. We do that in some cases, and in some cases we can't get them. Often we have to step out.

Mr. Corbett (Canton): I had a conference with a building and loan agent in Columbus with regard to this very subject. Investigation brought out the fact that about one-half the best residence districts at Columbus were encumbered with the forfeiture clause, and the attorney who passes on the titles there told me that it was entirely unnecessary; that it could be used only after the other processes of law were used, such as the injunction, and that it was entirely unnecessary for the enforcement of restrictions.

Mr. Edward C. Meurer (Stapleton, N. Y.): On Staten Island we have that same trouble in several sections with the forfeiture clause. When they come to our bank we simply cannot make the loan on such property. Our counsel, and a lot of people, are endeavoring to have that clause eliminated.

Chairman Cody: This is a very important point. I think we should call it to the attention of the National Association, and ask them to co-operate with us in this matter.

BUILDING AND LOAN INSTITUTE

Mr. Sam Stern (Philadelphia): Recently there was a Building and Loan and Savings Institute started at Kansas City by the Lumbermen's Association, for the purpose of forming a school, or institute, to teach the building and loan idea, and spread it throughout the West by trained workers, and give lessons regarding building and loan associations which, I say advisedly, are badly needed all over the country, but particularly in the West. The building and loan association leagues of the various states are helping to support that institute, and they want some support and recognition by the National Association of Real Estate Boards.

They would like to have financial support, if possible, and if not they want our moral support.

I would like to make a motion that we suggest to the board of directors of this National Association that we lend our moral support to this institute, and, if possible, in the wisdom of those who have charge of the finances, that they make suitable appropriation to help with the work.

Mr. W. E. Lyons (Kansas City): I second the motion.

Mr. Berman (Philadelphia): What will they do?

Mr. Stern: Print information about building and loan associations; furnish workers, send speakers around the country, to organize more building and loan associations wherever needed or called for.

Statement (Kansas City): I am very much in favor of lending our moral support, but in as much as they have a very strong league of building and loan associations, I think we should not be called upon to furnish financial aid. I would therefore like to amend that motion. I would like to add an amendment that the financial support be eliminated.

Mr. Lyons (Kansas City): I think there has been considerable expense in this matter. The Lumbermen's Association in the last two or three years has spent many thousands of dollars spreading the gospel of the building and loan association. They are not any more interested than realtors. Perhaps there is a selfish motive underlying it, in selling their lumber, but certainly there is much more interest and profit to the realtors that the idea of building and loan associations be spread and that the people be

enlightened along building and loan association lines, than there is to the lumber people.

I am in favor of this motion as first proposed: that we ask the National Association to contribute whatever amount they see fit. I think we ought to show we are interested in this, as well as the lumbermen. Building and loan associations are so constituted that they don't have much money to spend.

Question: I would like to ask if the motion that was made was to ask this division to support the Institute, or the National Association.

Mr. Stern: My suggestion was that we suggest to the finance committee of the National Association that they contribute to this cause, if they can afford it.

Question: You mean to the National Association? This is the mortgage bankers' division, and I don't think we should support it.

Mr. Stern: The National Association, I meant.

Chairman Cody: The amendment was that the original motion be amended to omit reference to financial support. Any remarks on the amendment?

Mr. Stern: My original motion provides that we put it up to the finance committee of the National Association, if they can afford it.

Question: My understanding is that this is not a burden on this particular division?

Chairman Cody: That is correct. There is no thought of our contributing as a Division.

Comment: It seems to me, as far as I understand the situation of the National Association, and also the situation of the building and loan associations in general, that the building and loan associations are so strong in this country and are getting such excellent publicity through the National Association, that we ought not to ask for financial support at this time.

I would, therefore, be in favor of the amendment because I believe that it is a good step in advance, and I hardly see the justification for asking for funds at this time.

Chairman Cody: Are you ready for the question? All those in favor of the amendment, omitting reference to financial support, will please stand up.

(Whereupon a rising vote was taken).

The amendment is carried. Any discussion on the original motion? Are you ready for the question?

(Whereupon a rising vote was taken).

The motion is carried.

Division Expenses

The $5 assessment will apply on our printing and mailing expense, including the loose leaf binder for each member, and at our business meeting in the winter, the question of dues for 1924 will be determined, based on our actual expenses.

Supplying Copies of Proceedings

We will have some applications for copies of these reports and proceedings. Is it your wish that the officers shall supply those copies at actual cost, but not less than $5, to any member of the National Association, whether he be a member of our division or not? Of course, members of our division will receive them without extra payment.

Mr. Simpson: I move the suggestion be adopted.

The motion was thereupon duly seconded and carried.

Copies for National Officers

Chairman Cody: Is it your wish that we supply complimentary copies of our proceedings to the officers of the National Association?

Mr. Culbertson: I make that as a motion.

The motion was duly seconded and carried.

Committees Remain Standing

Chairman Cody: Is it your wish that these committees, which have made such an excellent start on their work, should remain in office throughout 1923, and that the question of new committees be taken up next January, at the mid-winter meeting?

(Whereupon, a motion was duly made, seconded and carried, that the present committees remain standing throughout the current year.)

Mr. Lyons (Kansas City): Before this meeting closes, I would like to move that a vote of thanks be extended to Mr. Cody and Mr. Curtis, and others, who have worked so hard to make this meeting a success.

(The motion was duly seconded and carried).

Chairman Cody: That is deeply appreciated. I was about to extend sincere thanks to you on behalf of the officers for the support you have given in organizing this division.

I think you will agree it is setting a new pace to have a division so well attended, and such interest shown. It seemed like previous national conventions to see from five to six hundred people crowding this hall.

Serve on the Committees

We urge your support to the committees in their work during the present year. If any of you are not serving on the committees in which you are especially interested, please tell us and you will be enrolled at once.

Team Work

We have a common bond as realtors; we have even a closer bond as mortgage men. We must pull together and correct any conditions harmful to the business. Let us help each other and constantly refrain from spreading unconfirmed reports.

Standing side by side as brothers in this business, we shall have one of the best organized, one of the strongest, and one of the most useful Divisions of the National Association.

(Applause.)

Whereupon adjournment was taken.

SOME STRIKING FIGURES

COMPARISON of the average gross rates of income earned by Insurance Companies on mortgages and on stocks and bonds:

Year	Average on Mortgages	Gross Rate Earned on Stocks and Bonds	Disparity Disparity
1915	6.13%	4.69%	1.44%
1916	6.13%	4.72%	1.41%
1917	6.10%	4.43%	1.67%
1918	6.12%	4.38%	1.74%
1919	5.90%	4.55%	1.45%
1920	6.08%	4.66%	1.42%
1921	6.27%	4.81%	1.46%
Average:	6.10%	4.61%	1.49%

In other words, the Insurance Companies, over a period of several years have found mortgage investments 1½% more profitable than stocks and bonds.

—From Survey published by the National Association of Real Estate Boards.

(See page 27.)

BUILDING A MORTGAGE BUSINESS

By BYRON V. KANALEY
Cooper, Kanaley & Co., Chicago

[Address delivered at the Cleveland (1923) Convention of the National Association of Real Estate Boards, before the session, "Building a Real Estate Business", I. O. Ackley, Chicago, Chairman.]

I appreciate very much the invitation and opportunity to address this great national convention of the real estate boards of America, and to say these few words to the representatives of over 20,000 Realtors of America concerning a business of very vital importance to us all.

It is with great diffidence I approach the subject on which I have been asked to speak—"The Mortgage and Finance Department"—the chief reson for my diffidence is because my own particular firm has built up a volume running into several millions each year in first mortgage securities on a different plan, I think, than any other firm in the country. We have done it without advertising, without salesmen, and with a very small overhead.

Inasmuch as two of the most interesting trade talks it has ever been my pleasure to listen to—the talks by Guy W. Ellis of Detroit on "Organizing a Sales Force" and by W. Ross Campbell of Los Angeles on "Publicity and Advertising"—have stressed the importance of these two features in a modern office, it seems somewhat heretical for me to declare that a large business has and can be built up in first mortgage investments without either salesmen or advertising—important and beneficial as they undoubtedly are, where judiciously used. In fact we have never even had a mailing list.

I do not pretend to offer any suggestions on the usual plan of building up a large mortgage business by advertising and salesmen, for it has worked out very well in a large number of cases, and I do not say that perhaps my system can be successful as a general rule, but we must remember that the head of this concern we are in fancy discussing this morning, is that very able and astute and thoroughly likable and distinguished vice-president of this association, Ivan O. Ackley of Chicago, who can do anything that can be demonstrated has ever been done by anybody. I think his history in the affairs of the National Association of Real Estate Boards justifies this assumption. Therefore, I am free to treat the subject assigned to me entirely and peculiarly from a point of view of personal experience.

Then again we are not discussing now the great national mortgage investment houses of the country, but merely a good-sized house in a medium-sized city. I will grant that a nationwide business cannot be built up without great forces of salesmen and effective campaigns of all forms of advertising. I admit the time may come in our own business where we can't stand the wear and tear of the business as we once did, when we will need to call to our aid both advertising on a reasonable scale, and employ salesmen. I think we will also have to do this if we wish to enlarge greatly our present business. But we are discussing this morning, just a solid investment department in an ordinary city.

The personal note that is bound to intrude from time to time, I beg your indulgence for, because if these few minutes allotted me are to be of any value at all, they must be concrete and not full of platitudes and homilies.

Knowledge from personal knowledge, the financial standing of the proprietor of this "Ideal Realty Co.," (the distinguished gentleman I have a minute ago referred to) and the money that would be behind this mortgage department from the start, I must say it starts off with far rosier prospects than my own personal experience had to do with, for we started with an actual cash capital of the two partners of a very modest amount indeed, but I am firmly convinced that with the same amount of industry and close personal attention to the business, coupled with a moderate degree of real estate value intelligence and judgment, that the same moderately successful results can be attained by anyone.

The first essential, I would say, would be intimate personal contact with the borrower—I would place this above all else. More can be gained for the ultimate safety of a mortgage loan by knowing thoroughly the borrower, by listening to his full oral statement of his loan desired, than in any other way. A borrower, if allowed to talk long enough, is bound consciously or unconsciously to give to a trained mind all the points, the good and the weak, of a loan.

This is the reason why in our own business, we have always insisted on talking to the borrower direct. The only function a loan broker exercises in our business as we conduct it, is to present the preliminary facts of the loan. I fully realize this can not in the nature of things

be done by the great loaning institutions of the country, like trust companies, life insurance companies, and the big estate and endowment funds; but I think the ones that are soundly managed, make quite sure that their loan agents and financial representatives do this.

Personal Contact With Investor

Second in importance, I would say the next thing is as intimate a personal contact with the investor as possible in the conditions of modern business. You may say this cannot be done in a large business. I think it can. It doesn't take but a moment to talk personally with each investor as he comes in twice a year to collect his interest on each loan he owns.

In that moment or two you learn of any change in his thought in his investment problems, you learn whether or not he is likely to be in the market soon—you learn whether he wants a little larger return and a little less security, or the same or a smaller return with a wider margin of security. You become an important and dependable financial adviser to him—a result which can never be attained by even the cleverest advertising or salesmanship, which must of necessity be highly impersonal. You will be amazed to know how many of your investors you can keep in close touch with in this way, what an intelligent and understanding knowledge you gain of their problems—how helpful you can be to them.

Appraising Security

Third: It must be always kept clearly in mind that when a loan is made and sold that your part in that loan has only just begun. The neighborhood must be kept in mind, the trend of things in that district, in a general way the personal history of the borrower must be continually observed, and an occasional visit made to the property when in the neighborhood, so as to keep track of its condition and maintenance. On this will be based a proper judgment when it comes to renewing the loan five years hence, or whenever the loan comes due.

It is amazing how much information your mind will contain about thousands of loans and thousands of borrowers if you set out to acquire, retain and add from day to day to this information. It is also amazing how many of your loans you can keep in touch with accurately and look at once in a while even in a city as large as Chicago—the biggest city geographically in the world.

Inordinate Profits

Fourth: A few years in the first mortgage business will teach you the futility and unwisdom of an inordinate profit on a single transaction. It is the volume and low cost of doing business—the same as in any other sound business in the world—that must be the foundation of success. An unusual profit on a single loan means usually—of course not always—either a borrower who is not overly strong, or a loan that is out of the ordinary. The same inexorable rule prevails in the mortgage business our competitors do, the more business we can do, and the easier we can close our deals. How can you expect to do business on a "one-man market"?

Fifth: If this mortgage department in this fanciful company of ours is going to do business in a large way with big people, it has got to make up its mind at the start to do business the way the other man wants to do it—providing of course the other man is fairly reasonable and just. I have found in doing business with big institutions that they know about what they want, when they want it, and how they want it. "Sales talk" as generally understood—I don't pretend to know more about it myself—doesn't avail much. What a big investment corporation like a trust company or life insurance company wants is a fair and full presentation of the facts together with a reasonable and conservative interpretation of the facts, and that's all.

For Permanent Record

For that reason, I would personally very much prefer always to submit a loan in writing to a big investor, for the written word is apt to be more carefully selected—the facts are more carefully sifted, and you are likely to be very careful when putting yourself on permanent record in regard to the facts of a loan. It also is very much better to say too little than too much.

And I think it is a fundamental principle in dealing with all investigating clients, large or small, not to urge at undue length your own views on the desirability of the particular loan. In the long run the investor knows what he wants, and we must try in every way to meet his requirements and desires. The bigger the investor the more insistent he is, and rightly so, of getting the type of mortgage investment that his individual experience dictates is the kind he wants.

Guaranty Policies

Sixth: You will be particularly fortunate if in the city where this mortgage business we are contemplating in fancy is to be conducted there

is a title guaranty company. For the last 20 years practically all the mortgage business in Chicago in a large way has been done on guaranty policies. Years ago, the large mortgage houses of Chicago (we have some three hundred firms in Chicago doing exclusively, or in part a mortgage business which runs into an annual total of about 300 millions of dollars) saw the many distinct commercial advantages of mortgage policies over attorney's opinions, however able, and have ceased to use attorney's opinions practically altogether. Such advantages include safety, speed, the increased merchantability of loans, and the lessening of expense in connection with the title.

Personal Qualifications

Seventh: I think I have in the main outline the broad features of a successful mortgage investment business. Nothing of course will take the place of industry, of energy, of sound judgment, of ordinary horse-sense in the conduct of the business—of courtesy, of fairness, of honesty both to the borrower and the investor. I am assuming, of course, that all you ladies and gentlemen of the convention possess all these qualities. But to others whom you may know, who are contemplating entering the mortgage business I would urge you to advise them unless they possess in a great degree some of these qualifications, and in some degree all these qualifications, they had better select some business other than mortgage investments.

Mortgage Firms as Community Developers

Eighth: I think I have covered all the ground I can in the brief time I should take up in the program of this great convention. There are many things I should have liked to have touched upon. Just as an exceptionally able financial executive of one of our great life insurance companies, F. X. Quinn, of the Fidelity Mutual Life of Philadelphia, has from time to time called attention to the tremendously important part the life insurance companies of this country has taken by the loaning of their funds in the development of the agricultural and town and city interests of the nation, so I would, had I the time, dwell for a moment on the part mortgage firms have had in the upbuilding and development of the communities wherein they operate.

I would also, had I the time, dwell for a moment on things like present housing and building conditions—the labor and material market—the different types of loans, such as fees and leaseholds, and the great distinction between them—and many other things. But these have to do with the particularities and not the broad principles of a mortgage business.

A Solemn Obligation

Ninth: In closing I wish to emphasize this point, which after all, is the thought I would like to leave last with you, and which I hope will be remembered longest—that there rests on every man who is responsible for the conduct of a mortgage investment business, a very solemn obligation and duty. I know of no business wherein the sense of trusteeship ought to be more active and profound than in this business. It is peculiarly a business wherein there is a strong fidiciary relation between the firm and its investing clients—a relation that involves on the part of the firm vigilant, careful, conscientious and intelligent service—a service to which no man can in bounden duty give to his clients anything but the best of his mind and judgment and solemn purpose.

REAL ESTATE DEPARTMENT FOR TRUST COMPANIES

Report to American Bankers' Association Convention, Cleveland, 1923

By E. J. SCHALL

Philadelphia Trust Company

COMING as you do from so many States in the Union, each having its own laws governing the management of real estate and each having its own peculiar conditions to face, it is almost impossible for us to meet on common ground. In trying to overcome this difficulty the thought came to me we could better discuss the real estate department of a Trust Company and the importance of maintaining it as a separate unit of the trust department.

Value of Real Estate Department

For years Trust Companies have looked upon the real estate department as a necessary evil and company managers have treated it with the attitude of "What cannot be cured must be endured," but I am of the opinion that the company with a well organized and thoroughly equipped real estate department today is the company to get the big business of tomorrow.

—And It's Cost

One of the chief causes of complaint is the cost of maintenance. This must necessarily be an expensive department to operate. Why? Take for instance the matter of Real Estate Loans. Each application for a loan whether for One Thousand Dollars or One Hundred Thousand Dollars, must receive the same attention. First, the examination and appraisement of the property. To render proper service your appraiser should be a man of broad experience, sound judgment and vision. He might, as some do, appraise by certain rules, but rules mean little if the person who undertakes to apply them lacks the three qualities I have just mentioned. Second, the question of proper title to the property and the examination of all of the papers. Here is the need of a conveyancer who should have a thorough knowledge of the devolution of title and the preparation of deeds of conveyance and how objections found in the examination of title effect the mortgage loan, if at all. Anyone who has attempted to untangle the threads of a real estate transaction consummated by an inexperienced person (and in new estates you get these frequently), realizes the importance of having a man learned in this branch of real estate. Third, fire insurance coverage. Then the long delay incidental to getting settlement and papers off record. The following of payment of taxes, renewals of fire insurance and last but by no means least, nor the easiest, the collection of the interest.

The collection of interest and rents is one of the most difficult duties your department has to perform. Unlike the income from other securities where all you have to do is to receive your dividend check or deposit your coupons in bank and receive your money, you are dealing, in almost every case, with individuals and the promptness of payments is governed largely by their success or failure. How many times have you sat at your desk listening to your tenant or mortgagor with tears in their eyes tell you of their misfortunes and begging a little more time and how many times have you found they were good actors and the real reason for their delinquency was they had bought a new piano or spent the money for their own enjoyment, letting the rent or interest wait. It is a difficult problem to handle and a man to make a success of this branch of the business and to insure your trust estate a fairly prompt return on its investment, must be a student of human nature knowing when to grant leniency and when to force the issue. In our office we have adopted a plan of investigating cases that seem doubtful to us, which has proven very satisfactory.

It is, of course, possible to have all of the qualifications mentioned embodied in one person, but in a modern Trust Company, with the large amount of trust funds for investment, it is physically impossible for one man to handle all of these details and most companies are compelled to have a man handle each separate operation.

Wide Scope of Real Estate

Next let us take the real estate. I do not believe in any department of a Trust Company are you compelled to cover such a wide scope as in real estate. Today you are renting or selling a small dwelling house. Tomorrow you are delving into the intricacies of leasing a loft building, managing a gentlemen's country estate, struggling with the problem of finding a market for products from a large Western farm or orchard, checking up royalties from coal and oil lands or spending sleepless nights over improving an old building to increase revenue, and by way of diversion, trying to satisfy the demands of janitors and

help of office buildings and apartment houses. All of these come to you with the estates in your charge and you must be equipped to handle each case as thoroughly as any real estate office that specializes in this or that particular branch. General H. M. Lord, Director of the Bureau of Budget, speaking of the Government's real estate, in conference with the Realtors in Washington recently, said:

"A real estate business with more than nine dred Dollars per annum or less and a total annual thousand leases, not including those of Five Hunrent roll in excess of Twenty Million Dollars, requires highly specialized and trained men."

If this is true of the Government it is equally true of the Trust Companies.

Benefits to the Institution

Having attempted to show why the real estate department is extensive to maintain, let us now take up the benefits to be derived from such a department.

A large percentage of the real estate is put in your charge by the estates and you are placed in the position of owner rather than agent. For this reason commission cannot be charged for selling real estate as would be the case if you were an agent. The compensation for this work is included in the commission allowed to you as Executor or Trustee on the corpus of the Estate. Of course, there are exceptions to this in cases where you are appointed to act as agent for collection of rent or sale of real estate, but on the whole the compensation is not commensurate with the service required, but the opportunity of opening avenues for business in other departments must not be overlooked. It is a mistake to think that because a man borrows money on real estate he is not a good subject for the solicitation of new business. On the contrary if he receives the service for which he is looking, he is apt to be in a very receptive mood; therefore, your new business department is likely to find some very good prospects in this department.

Trust Companies have gradually taken the place of the individual trustee until they have become well known and well regarded throughout the country. They have come, through a series of years, to be looked upon as capable of managing most material affairs and people now look to them with confidence to attend to almost all details of their property. For this reason a Trust Company can fairly claim to be a helpful part of the community in which the real estate department is an important factor.

Today conditions in real estate are unprecedented, prices are soaring until we look aghast and wonder if it will ever cease. I believe the day is not far distant when the Trust Companies of the country, assisted by the Building Associations, through restricting the amount of money loaned on real estate, will do more to stabilize the real estate market than any other factor.

Trust Companies' Capital Needed

Expectations that the total expenditures in building throughout the United States for the year 1923 would amount to Six Billion Dollars is fast being fulfilled. Building permits throughout the country for the first four months called for expenditures of close to Two Billion Dollars with the busiest months of construction yet to come. According to estimates of the F. W. Dodge Construction Company, the construction of dwellings is forty-four per cent greater than in the early months of 1922.

All of this requires capital and it is fair to believe that the Trust Companies will be called upon to advance a large amount of this. In checking over the mortgages recorded in Philadelphia for a short period I found that about twenty-five per cent. (numerically) of all mortgages recorded were taken by our Trust Companies and when you deduct from the total, mortgages taken by Building and Loan Associations, which presumably are second mortgages, the percentage would perhaps double.

Leo Day Woodworth, Deputy Manager of the Savings Bank Division, in an article on mortgage loan investments, says:

"The function of the banks in financing the real estate market is so much more important than is generally appreciated and the security of real estate is so closely related to the operation of the American System of Savings Banking, that we believe certain misstatements should be corrected.

"There are more savings accounts in this country than there are families. Savings deposits total one-half of all bank deposits and one-third of all bank resources. Both in numbers and amounts so far the savings deposits of this country are increasing more rapidly than ever before and this creates an increasing demand for mortgage loans which cannot be overlooked by either bankers or realtors."

While the Mutual Savings Banks are today taking an active part in satisfying the demand mentioned by Mr. Woodworth, it must not be overlooked that the trust funds of our Trust Companies will be called upon also in a large measure.

Builds Good Will

In taking part in this ever-increasing business your department cannot help but come in contact with large business interest and the opportunity of making lasting friends for your company should not be overlooked.

There is a growing tendency on the part of the people to refer their problems to the Trust Companies and hardly a day passes that your real estate department is not called upon for helpful suggestions. This one may want your opinion as to whether they are carrying sufficient insurance. Another the value and how they should take title to a property they wish to buy or some more complicated questions all of which require that you have your department thoroughly equipped to handle any emergency whether it relates to matters in your State or any other State. By way of explanation let me mention an incident that occurred in our office recently. A valued client held a mortgage secured upon real estate in one of the New England States. He received word from one of the Philadelphia Banks that funds had been received to pay off this mortgage upon presentation of all of the papers including the necessary authority to satisfy the mortgage. The bank could not give him any information as to what was required (it could hardly be expected to) so he came to us. I have made it a rule to keep copies of forms required in the different States so that it was a matter of a few minutes to have the proper form to satisy this mortgage prepared and handed to him. Success today requires you to give this service.

Judge Frederick E. Crane of the New York Court of Appeals in a recent address to the New York Association of Real Estate Boards said, in part:

"The importance of the real estate man to the law of our land and to its administration has been increasing every year. The position of the real estate man in his relation to the community today certainly requires some previous determination as to whether or not he can carry on his activities in dealing with the happiness and prosperity of others.

"The importance of the real estate man to the Community has grown to such a point that his business is really a profession and a profession for which there should be at least some requisite preparation—Qualification, Skill, Experience and Ability. He cannot have too much."

Build your department upon these principles. Keep in close and friendly touch with the legal profession. Real Estate Brokers, Insurance Brokers, Company's Clients, your Tenant and Borrowers and you will find your real Estate Department will pay dividends far in excess of the most exacting demands.

MORTGAGE LAWS

C. A. NICKERSON, Chairman, Committee on Mortgage Laws
President, Empire Trust Company, Knoxville, Tennessee

IN view of the fact that I was only lately appointed chairman of this committee, and that my time for research and investigation has been very limited, this report must, therefore, be brief and general.

Uniform Laws Needed

The hasty examination that I have made of the mortgage laws and the rights, duties and liabilities of the mortgagor, mortgagee and third persons arising and existing by the execution of mortgages, convinces me that these relationships are not only mysterious to the average realtor, but confusing to legislators and lawyers. The ideal for which we strive as members of the National Association of Real Estate Boards is the creation of law throughout our Nation tending to the establishment of uniform legislation touching mortgage laws.

It would seem that practically the only point on which all courts and legislatures have agreed as to mortgage laws is that the mortgage must be executed and recorded in accordance with the registration laws of the state, to be valid in bankruptcy and to protect the mortgagee or note holder against attaching creditors.

Law Committee for Each State

With these general propositions as the basis, it may be that our Association can eventually make definite recommendations tending to clarify and codify the mortgage laws to legislative bodies and the chairmen of the Committees on Uniform Legislation of the Bar Associations. In order to lay the foundation for the work to be thus accomplished, I would recommend that a sub-committee be appointed in each state; that each sub-committee make a survey and compilation of the mortgage laws in its state and report the same to the General Committee, with full recommendations, statements and explanations touching the various matters shown therein and the best points of their laws. Some of the matters to which these sub-committees should give their special attention and concerning which they should make full and accurate reports are the following:

Important Laws to Be Studied

The legal status of the Trustee or Mortgagee. In many of our states it is said the legal title passes and in some of our states it is said the Trustee or Mortgagee holds only an equitable title. Attorneys advise me that this becomes quite confusing at times in working out the rights of judgment and attaching creditors.

Liens

The question of priority between the mortgagee or note holder and mechanics or furnishers acquiring liens on the construction of improvements on the mortgaged property. This situation is confusing, especially when the sale or loan in question contemplates the erection of improvements on the property sold or mortgaged.

Witnesses to Trust Deeds

The question of whether or not witnesses to the execution and delivery of the trust deed are necessary and, if so, when and how many. Some states require one witness, some two, and some have no requirements.

Foreclosures

The question of the method and means of foreclosure. Some of our states permit foreclosure by notice posted at the court house, others by notice posted in newspapers, others only by court procedure, and some by notice given by consent of the mortgagor obtained after default.

The question of the right and equity of redemption in the mortgagor or his successors in title. In some states this may be waived by the mortgagor, and in some states the right of redemption exists for a number of years in the mortgagor or his successors.

Uniform Mortgages

The question of uniform mortgages or trust deeds. This is especially confusing in securing money loaned by the mortgagee in another state. The formality of execution and acknowledgment then becomes very material to the mortgagee and is a source of great confusion.

The above are the salient facts that occurred to me, and there are, no doubt, many others that will suggest themselves to the sub-committees investigating these matters during the coming year.

PRIORITY OF MECHANICS' LIENS OVER MORTGAGES

VERNON H. DAY, Chairman
Secretary-Treasurer, Title Guarantee and Trust Company, Tulsa, Oklahoma

FROM the numerous judicial decisions involving the question of priority as between mechanics' liens and mortgages, the principle may be evolved that the time when the lien attaches governs its right of priority. Priority of attachment, however, must be distinguished from priority of registration, for, in the majority of jurisdictions the lien of a mechanic attaches prior to its registration, and the latter act is necessary merely to perfect the right.

When Does the Lien Attach?

The vital question, therefore is when the lien attaches is entirely dependent on local statutes. For this reason, few, if any, of the rules can be said to be of general application, and your attention is, therefore, called to the rules in the particular jurisdictions.

Rules of Various States

In Alabama a lien has priority over a mortgage, executed subsequent to the commencement of work.

In Arkansas the same rule applies.

California has the same rule.

In Ontario, Canada, the lien does not attach until it has been duly registered and priority of registration gives priority of rights as to mechanics' liens and mortgage liens.

In Colorado the lien attaches from the time of the commencement of work and has priority over all subsequent mortgages.

In Connecticut the lien of a mechanic, when filed, relates back to the time when the claimant first commenced work or furnished material and has priority over all mortgages subsequently executed.

Delaware has the same rule.

District of Columbia has the same rule.

In Florida it seems the lien of a mechanic does not attach until it is filed unless a purchaser or encumbrancer of the property has actual knowledge of the lien. In such case the lien is given priority from the time of the performance of the labor or the furnishing of the material.

In Georgia a mechanic's lien is given priority over all mortgages, even though recorded, unless actual notice of the mortgage lien is given to the mechanic before the materials are furnished or the work is performed.

In Idaho a mechanic's lien is preferred to any mortgage of which the lien holder has no notice, and which is not recorded at the time the building, improvement or structure is commenced or the work is done or the materials are furnished.

In Illinois the lien of a mechanic attaches at the **date of the contract** for work or materials and has priority over all mortgages or deeds of trust executed or recorded after that date.

In Indiana the lien attaches at the time when the work or material for which the lien is claimed is commenced or furnished.

Iowa has the same general rule.

In Kansas the lien of a mechanic, for work or materials, irrespective of the time when the work is performed or the materials are furnished, relates back to the commencement of the building operations, and has priority over a mortgage subsequently executed or recorded.

In Kentucky, while the lien of a mechanic attaches from the time the labor or materials are furnished, it is subordinate to a subsequent mortgage executed and recorded prior to the recording of the lien unless the mortgagee has actual notice of the mechanic's claim.

In Louisiana the privilege of a contractor or laborer has priority over all existing mortgages, if it is duly recorded within the period prescribed by statute.

In Maine the lien of a mechanic attaches at the time of making the contract for the performance of labor or the furnishing of materials, and has precedence over a mortgage given subsequent to that time.

In Maryland the lien attaches at the time of the commencement of the building.

Under the Massachusetts statute the lien of a mechanic relates back to the time of the execution of the contract for the work or material out of which the lien arises and has priority over a mortgage executed or recorded thereafter.

In Michigan the lien of a mechanic takes affect as of the time of commencement of work on the building or improvement and has priority over a mortgage executed subsequent to that time, though no part of the labor or material for which the lien is claimed is performed or furnished until after the execution and recording of the mortgage.

Under the Minnesota statutes a mechanic's lien attaches from the time of the commencement of work on the building, or the delivery of the first material on the land, by the lien claimant.

In Mississippi the lien of a mechanic relates back to the time of making the contract to do the work or furnish the material.

In Missouri a mechanic's lien attaches from the commencement of work on the building, and has priority over a mortgage executed or recorded thereafter, and the lien of a mechanic has precedence over a prior mortgage, as to the buildings or improvements placed on the property subsequent to the execution of a mortgage, and for all materials furnished in the completion of the work, but the mortgagee has priority as to the land.

In Nebraska the lien of a mechanic attaches from the date of the commencement of labor or the furnishing of material.

In Nevada the lien of a mechanic attaches to the property from the time the work of the lien claimant is commenced.

In New Hampshire it seems that a mechanic's lien attaches when the labor or material is furnished and a mortgage executed and recorded during the progress of the building is subordinate to the lien, even for work done subsequent to that time, under a contract made prior to its execution.

In New Jersey the lien of a mechanic relates back to the time of the commencement of the building operations and, generally, has priority over a mortgage executed thereafter.

In New York the lien of a mechanic does not attach to the property until notice of the lien is filed in the proper office and it is subordinate to a mortgage executed and recorded, against the property, prior to that time.

In North Carolina the lien of a mechanic attaches from the time he begins to furnish labor or material.

In North Dakota the lien of a mechanic takes effect from the time of the commencement of work on the building, and has priority over a mortgage executed or recorded thereafter.

In Ohio the lien attaches from the time the claimant first commeces to furnish the labor or material.

In Oklahoma a mortgage, duly executed and recorded, prior to the commencement of work on a building against which mechanics' liens are asserted, has priority over the liens, as to the land. It is also superior to the liens of material men against the building, but is subordinate to the liens of laborers on the product of their work.

In Oregon the lien of a mechanic relates back to the time of the commencement of the work on the building.

In Pennsylvania the lien of a mechanic attaches at the commencement of building operations.

In Rhode Island the lien attaches at the time of the commencement of work on the building.

In South Carolina it is provided by statute that the lien of a mechanic for labor or material shall not avail or be of force against any mortgage actually existing and duly recorded prior to the date of the contract under which the lien is claimed.

In South Dakota the lien attaches from the commencement of building operations.

In Tennessee the lien attaches at the time of the furnishing of the material or the performance of the labor.

In Texas the lien relates back and attaches as of the time when the erection of a building is begun and has priority over a mortgage executed or recorded thereafter, regardless of when the particular labor or material for which the lien is claimed is furnished.

In Utah the lien attaches at the time the labor or materials are furnished, for which the lien is claimed.

In Vermont the lien of a mechanic does not attach to the property until a written memorandum of his claim is recorded in the clerk's office of the town wherein the real estate against which the claim is made is situated. It is subordinate to a mortgage lien existing against the property prior to that time.

In Virginia a mortgage executed and recorded prior to the commencement of work, for which a lien is claimed, has priority to the extent of the estimated value of the land, exclusive of the

improvements, but as to the latter, the mechanic's lien is superior.

Under the Washington statutes the lien of a mechanic, when duly filed, relates back to the time when the claimant first commenced doing work or furnishing material for the building or improvements.

In West Virginia the lien of a mechanic attaches when the performance of the work or the furnishing of the material for which lien is claimed commences.

In Wisconsin the lien attaches at the commencement of work on the building, and has priority over a mortgage executed subsequent to that time.

In some states the lien statement must be filed within sixty days of the date of the completion of the work or the furnishing of the last material, while in other states the lien claimant is given six months within which this can be done, while in still other states it is unnecessary to file a mechanic's lien and to then foreclose this lien, the lien claimant being entitled to all the benefits of a lien by the institution of a suit in the proper court within the statutory time.

In some states the lien claimant, in the enforcement of his claims, must stand absolutely upon the statement or claim of lien which he has previously filed, while in other jurisdictions the claimant is permitted to amend his lien statement as to dates, amounts due and the description of the property on which the lien is claimed. Facts and circumstances which might establish a perfectly good lien in one state, will not be sufficient to maintain a lien in others, but confusing as this may be, the principal objection to our present laws is the absence of a uniform rule, establishing the relative priority of liens and mortgages.

Notice of Mortgage Must Be Given

As the question of the priority of a mechanic's lien over other liens or encumbrances depends on the time when the lien attaches, and as this time depends on the local statutes, the lien of a mechanic or a material man, therefore, according to the various classes of statutes, has priority over a mortgage executed or recorded subsequent to the commencement of work on the building or improvement; after the particular work contracted for or furnishing of material has begun; subsequent to the date of the contract; or after the lien has been duly filed. It has even been provided that a mechanic's lien shall have priority over all mortgages even though recorded, unless actual notice of the mortgage lien is given to the mechanic before the materials are furnished or the work is performed. The amount of the lien, however, cannot be increased by a subsequent agreement after the mortgage has attached.

It would, therefore, seem that a mortgage existing at the inception of a mechanic's lien is protected; when the mortgage is executed or recorded before the commencement of work on the building or improvement; prior to the doing of the particular work or furnishing of material; before the contract was made; or before the lien is filed, unless the mortgagee has actual knowledge of the lien.

Various Controlling Dates

No provision is made in some of the states, requiring the contractor to file any notice of his contract and that he will claim a lien, although the fact that there is such a contract, signed before the execution of a mortgage, will, in some jurisdictions, permit labor and material furnished under such contract to become a lien, prior to such mortgage. It is the date of the contract which controls. In still other states it is the date of the actual delivery of materials on the ground or of the commencement of the work which controls, while in other states it is the date of the beginning of the building which controls, regardless of what kind of labor or material was furnished by the claimant.

In other words, the person furnishing labor or material for the roof of a building and only engaged to do so a day or two before he commenced the work or the delivery of the material, can have his lien attach from the day the first shovelful of earth was removed for the foundation—perhaps months, perhaps a year or two before.

In the first instance the mortgage has absolutely no protection and is forced to rely absolutely upon the representations of the mortgagor.

In the second and third instances, the mortgagee must necessarily inspect the premises to be mortgaged, to satisfy himself that no work has been commenced and no material has been delivered.

In a number of jurisdictions it will be noted a mechanic's lien is given superiority over a prior mortgage, to the extent of the increasd value of the property, resulting from the improvement subsequently placed thereon, but as to the land, it is subordinate to the mortgage, especially where the improvement constitutes an original or

separate structure, capable of being removed without detriment.

In some jurisdictions referred to above, a lien for labor or material, furnished subsequent to the recording of the mortgage, has priority over the mortgage, unless the lien claimant has actual knowledge of such mortgage.

Uniform Mechanic's Lien Law Needed

In some states the owner and the contractor may enter into a stipulation waiving the provisions of the mechanic's lien law and when this stipulation is filed in the proper office it is binding, not only on the contractor, but on all subcontractors, material men and laborers.

We, therefore, recommend that a uniform mechanic's lien law be prepared and that an effort be made to have it adopted by the various states.

SUBDIVISION FINANCE

M. C. TEASDALE, Chairman, Cleveland, Ohio

SUBDIVISION Finance" is a subject on which considerable more could be said than is contained in this brief report.

There are, of course, several ways of financing the purchase of a large parcel for sub-division purposes, and the ease with which this can be accomplished or the difficulties to be met with, are reflected directly in the desirability of the parcel for the sub-divider's purpose, the demand in the immediate locality for additional sub-divisions and the immediate financial needs of the seller.

If the seller is in the affluent state of 'not needing the money,' it is, of course, comparatively easy for the purchaser to arrange for purchase money mortgages for a period of years with the usual release clauses that make it a very simple proposition. On the other hand, if the seller is 'hard up' and badly in need of cash and the location is a desirable one and much sought after, the purchaser must be prepared to finance the purchase through other sources.

Loans on Contracts

Up to this point, owing to the fact that the land is unimproved with dwellings and also unsold, the banker can not be called upon for assistance except in some rare cases of an unusual nature. In the refinancing, however, when the sub-divider has marketed the greater portion of his land, the banker and the mortgage house can, and in many instances do, help materially. The plan of placing with the bank acting as trustee under a bond issue, or in connection with some other form of loan, the land contracts between the sub-divider and his purchaser, has become quite general. In some cases the banker requests the transfer of the fee title in addition to the assignment of the land contracts.

In Ohio, the land contract is no longer permitted to be filed for record and the banker is therefore without adequate protection without the transfer of the fee title. Bond issues, at the prevailing rate of interest, are readily absorbed when properly protected by an adequate deed of trust and the issue does not exceed fifty or sixty per cent of the appraised value of the property. It is, of course, an essential feature that when about sixty to sixty-six per cent of the fair sale value of the lots which make up the collateral has been paid in that the entire bond issue will have been paid off.

Provide for Release of Single Lots

The trust deed should provide for a schedule of release prices on this basis which provides for the release of any particular sub-lot from the lien of the mortgage to the purchaser when he has completed his payments on his land contract. The land contract payments are in some cases made direct to the bank by the purchaser. This is not a good plan for the sub-divider, however, as he then loses that personal contact with his purchasers which is so essential in any business.

Where the payments on the land contract continue to be made to the sub-divider at his office, it is necessary to furnish weekly or monthly reports to the banker with enough detail to enable the banker to complete a record of each land contract which he keeps independent of the sub-divider's records. It can readily be seen that this plan affords ample protection to the bond-holder and to the purchaser under land contract, to the one that his loan will be repaid at maturity, and to the other that he will secure a good title to the lot he has purchased on completion of his payments according to the terms of his land contract.

Since the practice is becoming quite general among "allotment," or "sub-division," operators of making mortgage bond issues or mortgage loans on allotments which have been sold under land contracts to individual purchasers, and pledging the land contracts as collateral security for the loan, it does not seem untimely to discuss a few points in the making of land contracts with reference to their future use as collateral security.

Draw the Land Contract Right

In as much as the banks and mortgage houses lending money on land contracts often rely more on the payments to be made on the land contract than the personal obligation of the borrower for the repayments of their loan and often rely more on the enforcibility of the contracts than on the land mortgaged for the security of their loan, every care should be taken to produce contracts acceptable as security.

It goes without saying that first of all a land contract should be a valid and binding obligation, upon a legally competent person, to pay the purchase price. We will pass over the common legal requirements familiar to all by saying that

probably the most common fault in this respect is careless and faulty description of the land sold, sometimes describing no land at all and rendering the contract unenforcible.

Terms which are attractive to a lender are also good for the "alloter," or "sub-divider," with the possible exception that sometimes the alloter relies on the liberal terms of his contract for sales assistance.

Deferred installment payments are sometimes spread out over so long a period of time as to render the contract unsuitable as security. This might be remedied in some cases by having the entire balance fall due a certain number of years from the date of the contract even though the contract would not otherwise be paid out by its terms at such time. Provisions waiving payments during sickness and unemployment, and provisions requiring no further payments in case of the death of the purchaser, may be valuable from the selling standpoint, but are very injurious to the value of the contract as security.

A Common Fault in Contracts

Probably the most common fault of land contracts from the security standpoint is lack of proper default and acceleration clauses. Every land contract carrying installment payments should provide that upon default the seller shall have the option of declaring the entire balance due and payable. This is very often the strongest aid to collection, which the seller has.

While the above points regarding land contracts are elemental they are the most common faults found in the land contracts offered as collateral security and may prove of interest to allotment operators who contemplate refinancing under a plan similar to that outlined herein.

HOW TO FINANCE SUBDIVISIONS

Emphasizing the Necessity for Scientific Analysis of Financial Phases, and Presenting Five Methods for Financing Subdivisions

S. S. THORPE, Minneapolis
Courtesy Home Builders and Subdividers Division

IF one asks you how to finance a sub-division, the question comes up immediately, "What kind of a sub-division?"—for sub-divisions vary in about the same proportion as stocks in oil propositions vary. So that if you are to finance a sub-division, either in the most complete or in the most meager manner, to give any one an intelligent understanding of what you want to do, you must, necessarily, first show the possibilities of the property by analyzing the cost and the possible market for a sub-division of the tract you have in mind.

In a general way this is the time when you decide whether or not the property is suitable—both from a standpoint of the price that you have to pay and the price that may be obtained from a resale of lots. If this preliminary investigation and analysis show that the property can not be sold for at least three to three and one-half times the purchase price, I would say, as a general rule, you had better let it alone.

Compiling Estimates

If you decide that it has such possibilities, and you want to ask for financing, you should work out a complete estimate, which would show the possible net profits and a schedule upon which they could be realized; and, by making a preliminary platting sketch, showing the number of lots you would have and the improvements that you would like to put on the property, work out what would be a fair retail price, making allowances for waste or low lots.

Then, if you are still satisfied that it is a profitable enterprise, make up a schedule of your obligations and the dates on which they mature and the net amount available for liquidating these obligations, having in mind, of course, interest and taxes to be paid and interest that may be received.

All of this will show you if you are going to be over or short. Most likely you will be short, because that seems to be the rule in the majority of cases; for it is a nice trick to get in all of your overhead and unforseen items that creep in and are overlooked, especially by the less methodical and inexperienced.

With all these, you have a basis to work on for financing.

In offering to sell your financing plan, the selling organization should show its confidence in the enterprize by at least offering to have some real money of their own invested, especially in getting the property ready to put on the market—other than the permanent facilities—and, after paying, out of the first money received, the lot salesman his commission, your profits should stand until your financing money has been repaid.

It should be always carried in mind that anyone, either financing or helping to finance a subdivision, must have confidence in your figures, and they should be very carefully and accurately made up, for any mistakes or omissions might defeat the selling of your financing plan.

One of the strongest arguments in securing financing, is that you can show a good selling organization of experience and capacity; for the selling organization is perhaps more valuable to a financing plan than either one of the other factors. In other words, it takes three factors to make a successful operation:

First factor—A tract to work out or the opportunity.

Second—Some money for the enterprise.

Third—A selling organization and confidence in same.

Any two of these factors alone are useless. It takes all three, working together, to make a success of the enterprise.

To Finance

First: The easiest and the simplest way to finance is to have some individual who will buy the tract and advance the money, both for the carrying accounts and improvements, under a division to be agreed upon. This financing is simplicity in itself; and, if you can sell such a plan to a party who will "carry the bag" to final conclusion, he is entitled to receive all his money back first, with interest, and 50 per cent of the net profits of the enterprise. You, as the promoter and selling organization, are putting your experience and time against your financier's money and the risk he takes.

Second: Syndicating. It is not always possible to get one man with money who might be willing to make a purchase outright and carry a subdivision; but you might be quite likely to find half a dozen men who would join with the other men and be willing to purchase for an organization they had confidence in. This is practically the same as the first plan, except that it is divided up, and is what we ordinarily call "Syndicating a tract." This, of course, is generally easier to do than to find one man to carry it all.

Third: By serial bonds it ought to be possible—and I see no reason why it would not be good business—for a trust company or a bonding company to finance a subdivision by issuing serial bonds running over a term of years, these bonds to be sold on some sort of a share-in-the-profit basis; and, with the showing you have made with your estimates and budgets, it does not seem at all improbable that subdivisions can be financed under a bonding plan, especially where the transaction is handled by a trust company as trustees.

Fourth: Fee or title owner finances. The most common, and what is the most logical way to finance a subdivision, is for the owner of the tract himself to finance the larger portion of the purchase price. What is quite reasonable is that the seller would sell on a payment of 10 to 20 per cent down and the balance to be distributed over a term of from 7 to 10 years—the purchase contract to provide that utilities may be assessed against the property, such as sidewalk, water, sewer, curb, gutter and paving. The buyer, however, should agree to do some development—possibly the grading, platting expenses and advertising; from 70 to 80 per cent of the first monies received from sales, after paying the lot salesman his commission, to be paid to the tract owner toward the principal of the purchase.

In this case, it might be good business, and helpful to the buyer, if the seller would agree to take as part payment of the principal either first mortgages or contracts for deeds on property sold where one-half of the purchase price has actually been paid down.

All of the provisions with reference to partial releases, and all that sort of thing, must be provided for in a contract of this kind.

Fifth: Taking chances. If you have a subdivision that you are satisfied in your own mind would be fast selling, and conditions warrant, it is quite possible the lots could be sold fast enough, and enough down-payments received, to meet and take care of your obligations on the purchase, also the improvements. This might be especially true if the utilities are assessed against the property and may be paid over a term of years and are assumed by the lot buyers.

Trustee the Property

As a safeguard to the property owner, to the lot buyers, and to yourselves, subdivisions should be turned over to a trust company or bank as trustees, in the city in which the property is located, with the right to plat, sell and develop; the trustee making all the collections, paying all the bills, signing all the contracts, signing all the deeds, and making a monthly accounting to both the tract owner and the subdivider. The trustee having a minimum schedule of release and price of each parcel.

Under this form of operation the title never becomes involved, and the buyer is always sure that he is going to get his deed if he pays for the property.

If there should be a mortgage on the tract at the time you buy it, with a proper release clause in the mortgage the funds that come to the seller can be used for liquidating the mortgage.

I think all Realtors and subdividers should use this form of handling subdivisions, both for themselves and the lot buyers; and it is well worth the price you pay the trustee for a service of this kind.

The time is past when you can get something for nothing. Anything worth while means that you must have some real money or pledge your credit for some, if it is to be of profit to you. Tracts of land that you can get for the asking are generally hardly worth the taking; having in mind, also, that the time is past when one would simply drive in a few stakes, turnpike a street, and then pass it on. This is not to your credit, and will be bad for the city in the long run.

Like other enterprises, if you succeed in the operation and your financing plan works out, it will be much easier to go back to the same parties and have them take five more than it was to get them to take on the first one. So, after all, it is the exercise of judgment and confidence, with some money, and a lot of hard work; and, with these all working out together, a subdivision is as profitable as any part of the real estate business.

Suggests Four Grades

As I said in the beginning, subdivisions vary, and we must have in mind that a subdivision

must be provided not only for the well-to-do—and highly developed—but you also have a duty to provide subdivisions for the more moderate, and, again, for the poorer class of families, because all of these are entitled to live just the same as those who can pay more.

I am making the following suggestions as to the different grades of subdivisions:

1. First-grade subdivision. Install and furnish all of the best type of improvements. The total expense will run three times the original cost of the land. Average cost of land per acre $1500 to $2000.

2. Second-grade subdivision. Install all improvements, but cut down on the cost of street improvements by making macadam streets. Total expense will be two and a half times the original cost of the land. Average cost of land per acre $1000 to $1500.

3. Third-grade subdivision. Install cheap streets of gravel; cement sidewalks; advance money for the water. The expense will run twice the original cost of the land. Average cost of land per acre $500 to $1000.

4. Cheapest-grade subdivision. No improvements except cleaning, turnpiking, staking, street signs. The gross expense will run equal to the original cost of the land. Average cost of land per acre $250 to $500.

I am attaching to this paper a suggestion of schedule of a a fully developed subdivision. It is only a suggestion, as conditions vary so greatly with each proposition.

What some of our real estate men, I suppose, would like to know, is not so much "How to Finance a Subdivision," as how to get a subdivision and put it over without any financing at all. How to tell anyone to do this is beyond me, and if somebody discovers it, I will be glad to have the recipe.

SUGGESTIONS

HOW TO DEVELOP A 100-ACRE TRACT

Costing $1,000.00 Per Acre, Making 500 Lots.

ESTIMATED EXPENSE

SUBDIVISION EXPENSE		
Planning	$ 1,500	
Subdividing	500	
Staking	600	
Cleaning	375	
Draining	250	
Street signs	375	
Subdivision signs	500	
Subdivision office	500	
Sundry expense	1,250	$ 5,850
IMPROVEMENTS		
Sewer	$30,000	
Sewer connections (optional)	12,500	
Water advance $37,500		
Water interest loss	5,000	
Water connections (optional)	12,500	
Gas advance $5,000		
Gas interest loss	750	
Electric light adv. $1,500		
Electric light interest loss	200	
Street grading	15,000	
Street paving	93,500	
Sidewalks	20,000	
Curb	10,000	
Trees	1,500	
Engineer 3%	6,000	$206,950

SALES EXPENSE		
Literature	$ 3,750	
Newspapers	1,750	
Sundry expense	2,000	$ 7,500
COMMISSION EXPENSE		
Manager 7½%	$46,875	
Salesmen 10 ½	62,500	$109,375
TITLE EXPENSE		
Trustee	125	
Abstracts	750	
Deeds	625	
Stamps	625	$ 2,125
GENERAL EXPENSE		
5%		$ 25,000
		$356,800

ESTIMATE

100 acres

Sales Schedule to Complete in 2 years.

6 mos. Period	Selling for 10% Open Sale Date	1% per month Total Lots Sold		6 int. after 1 yr. Fair Price
1st	9-1-23	175	= 35%	$ 218,750
2nd	3-1-23	175	= 35%	218,750
3rd	9-1-24	100	= 20%	125,000
4th	3-1-25	50	= 10%	62,500
		500	= 100%	$ 625,0000

ESTIMATE

100 acres

RETAIL PRICE

Full improvements in and paid for 50-foot lots

	$20.00 per ft. $1,000 per lot	$22,50 per ft. $1,125 per lot	$25.00 per ft. $1,250 per lot	$27.50 per ft. $1,375 per lot	$30.00 per ft. $1,500 per lot
500 lots	$500,000	$562,500	$625,000	$687,500	$750,000
Land cost $100,000					
Expense 356,800	456,800	456,800	456,800	456,800	456,800
Net	$ 43,200	$105,700	$168,200	$230,700	$293,200

INCOME FOR 5 YEARS

6 mos.	Prin.	Int.	Total 6 Mos.	Years	Agent 17½% Sales Com. 1st 10%-½	Net
1	$ 47,468		$ 47,468		$ 24,853	$ 22,615
2	59,231		59,231	$106,699	30,709	28,522
3	50,650	$ 2,216	52,866		25,949	26,916
4	43,887	6,295	50,183	103,049	18,040	32,142
5	33,650	9,392	43,042		6,752	36,289
6	33,650	10,864	44,514	87,556	3,069	41,444
7	33,650	10,647	44,297			44,297
8	33,650	9,637	43,287	87,585		43,287
9	33,650	8,628	42,278			42,278
10	33,650	7,618	41,268	83,546		41,268
	$403,136	$65,297	$468,434	$468,435	$109,373	$359,058

FARM LOANS

HUGH H. SHEPARD, Chairman
Hugh H. Shepard, Farm Loans, Mason City, Iowa

THE VARIOUS agencies that furnish real estate loans on the farms of the nation are entitled to a great deal of credit for the splendid growth and development that has taken place over the entire nation during the last few decades, since the stability of the farm mortgage loan as an investment has become fully recognized.

Life Insurance Companies and Other Buyers

The life insurance companies of the United States recognize the value of real estate mortgage loans as a safe financial investment and at the present time have a larger proportion of their assets invested in real estate mortgages than in any other form of investment.

First mortgage farm loans are recognized as a safe investment for savings banks, trust companies and trust estates of practically all kinds, and by virtue of these investments being made in farm loans, the entire country has been improved to such an extent that farming conditions have been completely revolutionized, and the lot of the tiller of the soil has been made much more pleasant.

The purchase of farm loans as an investment by these various agencies has also had a tendency to standardize and stabilize farm values and the question is often raised prior to the closing of a deal for the purchase of real estate as to how much of a first mortgage loan can be carried back against the land, and the amount of this loan is oftentimes a determining factor in the sale price of the real estate.

Title Requirements Standardized

During the last decade title requirements have been standardized so that there is not now the delay that was formerly common in producing a title acceptable to the loaning companies, and much credit must be given to the American Association of Title Men for the splendid work that has been done by this Association during the last fifteen years in standardizing title requirements, and in procuring the enactment of legalizing acts in the various states so that real estate can be more speedily transferred than was formerly possible.

Farm Mortgage Bankers' Association

The Farm Mortgage Bankers' Association of America was organized in May, 1914, and now has a membership of several hundred farm mortgage bankers through the entire United States, who carry on their books something over two billion dollars' worth of farm mortgage loans aggregating 25% of the eight billions of dollars worth of farm mortgage indebtedness of the United States. This association has done a great work in advertising the attractiveness of the farm mortgage as an investment, and its campaign against the further issuance of tax exempt securities is now bearing fruit to such an extent that associations of bankers, realtors, farmers and others throughout the United States are adopting resolutions against the further issuance of tax exempt securities.

It is the belief of the Committee that the National Association of Real Estate Boards can co-operate to advantage with the American Association of Title Men in the matter of further simplifying and standardizing title requirements, and can co-operate to advantage with the Farm Mortgage Bankers Association in its work of advertising the attractiveness of farm mortgages as an investment; also of procuring an amendment to the constitution of the United States that will prohibit further issuance of tax exempt securities.

Tax Exempt Securities

Authorities state that there are now sixteen billion dollars worth of tax exempt securities in the United States and that new securities are being issued at the rate of one billion dollars a year. These securiies are held by large investors who thus escape all forms of taxation by government, state, county and local agencies, and the burden of taxation is thereby increased against the people of moderate means, and particularly against the land owning class, because all will realize and admit that real property has always borne its fair share of the burdens of taxation.

This Committee would recommend that the National Association of Real Estate Boards adopt a resolution protesting against the further issuance of tax-exempt securities, and that the

Representatives and Senators in Congress be urged to support the Greene resolution now pending in Congress for the adoption of a constitutional amendment to prevent the further issuance of tax exempt securities.

In closing this report the Committee considers that it can to advantage include certain statistics that are furnished by courtesy of the Farm Mortgage Bankers Association of America in its recent directory issued in January, 1923, which shows the importance of farm financing:

Distribution of Farm Loans

"According to the Federal census of 1920, there are 6,448,366 farms in the United States, having a total value for land and buildings of $66,334,309,556.

"Federal census enumerators reported information about the mortgages on a trifle over one-sixth of the farms of the United States. To be exact, 18.6 per cent of the total number of farms reported mortgages to the Federal census. It is generally estimated that between 40 per cent and 50 per cent of the farms are subject to mortgage debt. Census enumerators do not secure information about farms unless they are operated by the owners. Many farms are operated by managers and 2,454,746 are run by tenants.

"Data carefully collected by business statisticians show that the total mortgage debt of the farms of the United States, including all those not reported by the Federal census enumerators, was, on January 1, 1922, in excess of $8,000,000,000.

"Estimates based on carefully tabulated statistics furnished by members of the Farm Mortgage Bankers Association of America show that the present membership, comprising nearly 300 companies, now carry on their books live loans of an amount considerably in excess of two billion dollars.

Investors in Farm Mortgages

"On this basis of a total of $8,000,000,000 the farm mortgage indebtedness of the United States is carried in about the following proportions:

Joint Stock Land Banks, See report Federal Farm Loan Board, Nov. 30, 1921 $81,734,869 — 1%

Federal Land Banks, See Fifth Annual Report, Nov. 30, 1921; $415,173,159 — 5%

Insurance Companies, first mortgages, (See Proceedings Fifteenth Annual Meeting Association of Life Insurance Presidents) Report Oct. 31, 1921, $1,247,300,000, —15%

Farm Loan Companies, not members of the Farm Mortgage Bankers Association of America, first mortgages, estimated, $1,200,000,000 —15%

Members of Farm Mortgage Bankers Association of America, first mortgages on improved farms, (data tabulated from reports of members) something over $2,000,000,000 —25%

Local investors, private lenders, local banks, and those not otherwise classified, first, second and third mortgages, including "purchase money" mortgages, $3,100,000,000 —39%

"There is some duplication in these figures, because a large proportion of the mortgages owned by life insurance companies were furnished by members of the Farm Mortgage Bankers Association of America and are carried on their books as live loans. But the duplication is largely offset by the actual excess of mortgages above $8,000,000,000, increasing the amount carried in the unclassified list.

Exceptionally Reliable Security

"The $8,000,000,000 of farm mortgage indebtedness on a farm land valuation of $66,334,309,556 equals about 12 per cent of the 1920 valuation of all farms and farm buildings. Probably no other industry has so small a fixed debt and offers so wide a margin of security to the investor in its funded obligations.

"With agriculture carrying a mortgage indebtedness of about one-eighth of the value of the landed property, backed up by a valuation of personal property several billions of dollars in excess of the personal indebtedness, the status of the first mortgage on improved farm land as the premier security of the world cannot be questioned. It does not fluctuate with the stock markets. Panics, wars, conquests or other changes in business or government do not impair or destroy the security of the farm mortgage."

The Committee believes that the condition of the farmer is deserving of careful analysis at the present time, and that anything that will tend to better his condition should receive careful consideration. The question of co-operative marketing of farm products, of transportation rates and facilities for marketing are receiving consideration and careful study at this time. Agriculture is one of the most important industries and it is hoped that prices will soon reach a level whereby the farmer may receive an adequate return for his product in comparison with the prices that he is required to pay for the products of others.

APPRAISALS—FARM LOANS

E. C. KUEHL, Chairman
Eau Claire, Wisconsin

OWING to the short time that our committee has had in which to work out a report on the appraisals of farm loans, we have not been able as yet to get together anything of any great value to present to the Convention.

Co-operation of Farm Lands Division

It does, however, occur to our committee that the Farm Land Division of the National Association of Real Estate Boards should appoint a committee to work in conjunction with ours so that at our next meeting we will have something of value for the realtors who are selling farm lands. We believe that the appraisal of farm loans is a field in which a lot of study should be made so as to standardize the appraisal of farm property. In this connection we can perhaps get a lot of valuable suggestions from the work that the real estate boards have done with reference to appraising city property.

From the letters that I have gathered from the members of our committee, it is plain to see that each member has a different way of making his appraisals.

Will Work for Uniform Farm Appraisals

It seems to us that our Association could well afford to put some effort into making farm appraisals more uniform so as to eliminate unsound appraisals which the members of this Association do not want. It seems as though this would be a step toward elevating the profession.

I regret that we are unable to furnish you with anything further at this time, but with the co-operation of the Farm Land Division we hope to have a comprehensive report to offer at a later date.

Write for a copy of the "Survey of the Farm Lands Market" (October, 1923) and "Standardization of Farm Land Appraisals" (November 1923) which will be forwarded on request by Herbert U. Nelson, Executive Secretary, National Association of Real Estate Boards, 220 So. State Street, Chicago, Illinois.

AGRICULTURAL LAND VALUES AND INCOME

On Present Valuations, Incomes Are Less Than Mortgage Rate of Interest—At Present Rate of Income Further Declines May Be Looked for in Land Valuation—A Study Presented Before the Farm Lands Division at the Cleveland Convention.

By C. R. CHAMBERS, Washington, D. C.

THE future course of farm land values depends in part on the movement of land incomes and in part on the relationship between land value and land income.

There are three problems connected with the relation of land income to land value. (1) what is the relationship between land income and land value in any particular year? In other words, what is the rate of return on the current valuation? (2) What is the expected relationship between land value in a given year and the incomes of all later years, or what is the rate of return which farmers demand on their money when they invest in farm lands? (3) What is the actual relationship between the land value in a given year and the incomes of all later years? That is, what is the actual rate of return on the investment?

If land incomes were constant year after year and were expected to continue so in the future, the rate of return on the current valuation and the expected rate of return on the investment would be the same. That is, the ratio of land income to land value in any particular year would show the rate of return on the current valuation and the rate of capitalization.

The rate of capitalization is simply the rate of return which farmers demand on their money when they buy farm land. If this rate is 5 per cent then they will pay $100 per acre for land that earns an annual income of $5 per acre. Five dollars is a 5 per cent return on $100.

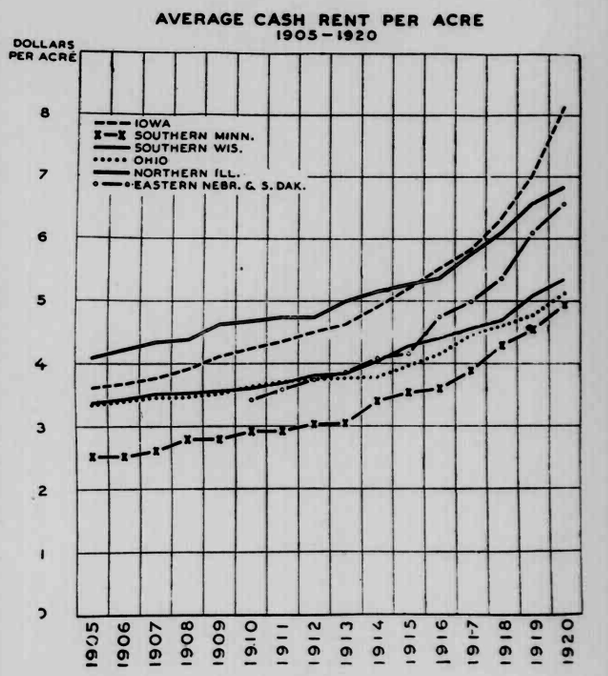


Chart No. 1

If land incomes are increasing, however, the rate of return on the current valuation will be less than the rate of capitalization. This is the condition that prevailed during the two decades preceding 1920, as is indicated in the accompanying chart No. 1.

It will be noted at once from this chart that land incomes, as measured by cash rent, increased in all the areas represented from 1905 to 1920. In some areas they increased much more rapidly than in others, but in all these areas land incomes increased materially, and there is little doubt that all other major agricultural regions enjoyed similar increases in the annual earning power of land.

The result of this long period of increasing incomes and increasing land values, was to lead buyers and sellers of land to expect further increases. A prospective purchaser in any of these years then was willing to pay a higher price for land than a capitalization of its current income would warrant. He was willing to do this because he expected that income to increase. A prospective seller of land likewise expected to get a higher price for his land than its current earning power would warrant and for the same reason.

If no buyer could be found who would pay for expected increases in income, the seller would prefer to hold the land himself. This long period of increasing incomes, in other words, caused further increases to be anticipated and these were discounted in the sale price of land. Part of the value of land, then, in all these years, was based upon current income, but part was also based upon expected increases in that income. For this reason the rate of return on the current valuation was lower in most of these years than the rate of capitalization.

Gross Return on 1920 Values

The accompanying map shows the gross return on the 1920 valuation. It will be noted that the current gross rate of return was very low in the corn belt and small grain areas in the North, but very high in the cotton belt and irrigated regions of the West. The apparent high returns in the latter areas are due to the relatively heavy costs which are born by the land owners in these regions and which must be deducted in order to get true net returns.

Net Return on 1920 Values

The following table shows the net return in 1920, on the valuations of that year for a few selected areas where it was possible to get data on the costs borne by the land owner. These costs are, in the main, real estate taxes and depreciation and repair of improvements. In the cotton belt, however, risks borne by the land owner must be added to these costs; and in the irrigated regions charges for water rights must be added.

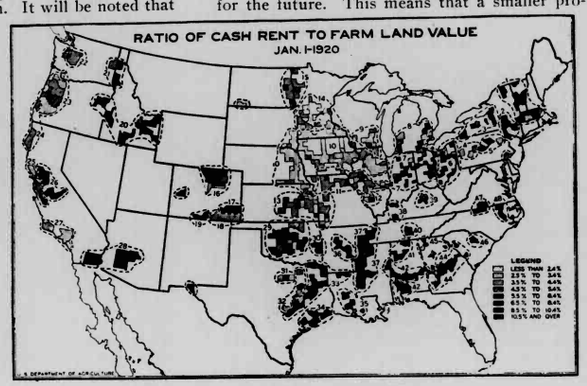
Column 4 of this table shows that in all the areas except the Mississippi delta there was a very low rate of return in 1920 on the valuations of that year. It also shows that some areas have lower rates than others. For instance, the cotton belt areas are higher than the corn belt areas. The area in Ohio is higher than that in Iowa and of the California areas; that which is near San Francisco has a higher rate of return than that which is farther away.

These low rates of return and the variations in the rates are to be explained by the high and varying percentages of the value of the land which is based upon expected increases in land income and the variations in the rates of capitalization.

It will be noted from chart 1 that rents increased very rapidly in Iowa but less rapidly in central Illinois and still less rapidly in Ohio. Column 4 in table 1 shows, as is to be expected, that the rate of return on the 1920 valuation is highest as between these three areas in Ohio and lowest in Iowa, while Illinois is between them.

Ohio Has Largest Return

Ohio has the highest return because incomes had increased less rapidly than in the other areas and therefore smaller increases were anticipated for the future. This means that a smaller proportion of the value was based upon expected increases in income so that the current rate of return was higher. The higher rate in this area is also accounted for in part by the higher rate of capitalization, which is 5.9 per cent, as against 5.5 per cent in the other areas.



Map Showing Gross Return on 1920 Valuation

TABLE 1.

Land Values, Cash Rents and Related Factors

	1	2	3	4	5	6	7	8
					Expected	Average increase		
			Mortgage	Ratio	Increase	in cash rent		
		Cash	Int.	Rent to	in	for the preceding		
	Value	Rent	Rate	Value	Rent	5 yrs.	6 yrs.	7 yrs.
Iowa	$243	$6.01	5.5	2.5%	.40	$.56	$.50	$.48
Ohio—Western half	154	4.75	5.9	3.1%	.26	.31	.27	.23
Southern Wisconsin	139	3.84	5.2	2.8%	.18	.20	.19	.18
Eastern Nebraska, Southeastern South Dakota	203	4.54	5.8	2.2%	.43	.48	.41	.39
North Central Illinois	211	5.60	5.5	2.7%	.32	.34	.33	.29
Minnesota—Southern half	164	3.49	5.8	2.1%	.33	.29	.27	.25
California—near San Francisco	143	3.40	6.2	2.4%	.32	....	....	....
California—farther from San Francisco	150	7.36	6.4	4.9%	.15	....	....	....
Mississippi Delta	98	6.34	6.9	6.5%	.03	....	....	....
Alabama—Black Prairie	30	1.14	6.9	3.8%	.06	....	....	....

Statistical evidence that this is the case is presented in table 1. Column 5 shows the annual increase in income that was anticipated by the buyers and sellers of land in 1920. That is the calculated increase in income that was necessary to justify the 1920 land values. In other words, land incomes had to increase at these rates in the years following 1920 if the buyers of land in that year were to receive rates of return on their investments which would be equivalent to the rates yielded by farm mortgages.

Column 3 shows the mortgage rate of interest for each area. Columns 6, 7 and 8 show the average increase in land incomes, as measured by cash rents, for the 5, 6 and 7 years preceding 1920. It is at once evident that the increases necessary to justify the 1920 valuations check very closely with the average increases in incomes of the preceding years.

Thus it appears to be evident that rapidly rising incomes lead to anticipations of equally rapid increases in the future, so that areas in which incomes are rising most rapidly will have the lowest rate of return on current valuations.

A Misleading Theory

The rate of return on the current valuations has often been taken to show the rate of capitalization and even the rate of return actually realized on investments in farm lands. Thus it has been customary to say that investments in farm lands yield very low rates of return and this has been explained by the fact that farmers are willing to take low rates of return on their investments. Since they are willing to take a 2½ or 3 per cent return, it is held that they boost the price of land up until it is on a 2½ or 3 per cent basis.

This is a theory which has been widely accepted, but it is one which simply isn't true. First, let us get clearly in mind what is meant by return on investment. To make the problem concrete let us ask the question: Did farmers who bought land in 1900 make good investments? Did they get good returns on their investments? Clearly, the investments involved were the prices which farmers paid for farm lands in 1900.

The returns on these investments from 1900 to 1920 were the average incomes yielded by lands during this period and the rate of return was the ratio of these average incomes to the 1900 purchase price. That is, the rate of return on the investment is the rate of return on the purchase price, and in determining this rate the incomes earned by the land, in all the years following the purchase, must be taken into account.

In Ohio the rate of return on the 1900 investment went up rapidly during the period from 1900 to 1920, and that the average return for the whole period was very good indeed. On the other hand, the rate on the current valuation de-

"But if land incomes do no more than hold their present level, land values can be expected to decline still further. For the present level of land values, if the Iowa figures are typical, are based upon expected increases in income, and if these increases are not forthcoming in the next few years they will cease to be expected, and land values will decline still further."

clined during this period. The upward movement in the rate on 1900 investments and the downward movement in the rate on current valuations were caused by the same thing that is rapidly rising land incomes. Increasing incomes, of course, yielded higher and higher returns on the average 1900 purchase price.

Rise Faster Than Incomes

The same increasing incomes led land values to rise in the years following 1900, and to rise faster than the incomes, because the more rapidly incomes increased the more rapidly they were expected to increase, so that a larger and larger percentage of the value in each year following 1900 was based on expected future increases in income. The result, of course, was a declining rate on the current valuation.

To call this rate the rate of capitalization or the rate of return actually received on investments is clearly misleading and untrue. If the rate on current valuations were the rate at which farmers are willing to invest in farm lands then we would be compelled to say that higher prices were not paid for land because its earning power was expected to increase.

"But if land incomes do no more than hold their present level, land values can be expected to decline still further. For the present level of land values, if the Iowa figures are typical, are based upon expected increases in income, and if these increases are not forthcoming in the next few years, they will cease to be expected, and land values will decline still further."

But such a conclusion is untenable in view of our common knowledge of the way in which farmers make their calculations when they are considering the purchase or sale of farm land, and in view of the evidence submitted in Table 1.

What rate of return, then, do farmers demand on their investments when they buy farm lands? In other words, after they come to some decision as to what they expect the future income of land to be, what is the rate at which they capitalize these incomes? It is most likely a rate that is very near the mortgage rate of interest.

Retiring farmers and landlords can either hold their capital in farm lands or sell out and invest in farm mortgages. If, after taking into account the expected increases in land income, it appears that mortgages will yield a higher return in the long run, they will sell their farm and buy mortgages. This possibility of investing in either land or mortgages keeps the expected rate of return on land in close agreement with the mortgage rate of interest. And the fact that there are so many landlords in this country is pretty good evidence that they have considered that the return on land investment was about as good as the rate they could get by investing in mortgages. We may take the mortgage rate of interest then as the rate of capitalization, the rate which farmers expect to receive on their investments in the long run.

The actual rate of return on the investment will diverge from the expected rate—approximately the mortgage rate of interest—by the amount that land incomes in the years following the purchase diverge from what they were anticipated to be at the time the purchase was made.

The conclusions so far are as follows:

1. The rate of capitalization is the mortgage rate of interest.

2. The basis for anticipated future increases in land income is past increases.

3. When land incomes are expected to increase in the future the rate of return on the current valuation will be less than the mortgage rate of interest and the greater the expected increase the smaller the current rate of return.

What light do these conclusions throw on the probable course of land values during the next decade? A recent investigation in Iowa shows that the net rate of return on the present estimated valuation is about 3 per cent. This is one-half of a per cent higher than it was in 1920, showing that a smaller percentage of the value is based upon expected future increases in income now than then.

Below Mortgage Rate

But 3 per cent on the present valuation is still about 2½ per cent below the mortgage rate of interest, showing that even now, after three years of falling land values, a large part of the present

value is based upon expected increases in income. Three years of declining land incomes and land values have shaken the confidence of Iowa farmers only a little—if the data quoted here are typical—in their belief that land incomes and values must start upward again. But if this confidence is not justified in the next year or two by an actual material increase in land incomes they will count upon it less and less.

Even then, if land incomes maintain their present level or increase very slightly, land values may be expected to fall still further. If, however, land incomes start and maintain a strong upward course the present value level will be justified and land values may be expected to increase again. All depends on the future course of land incomes.

The income earned by farm land depends very largely on the prices of farm products, and whether or not land income can be expected to increase depends upon the future course of the prices of farm products. No prediction can be offered with any certainty as to what will happen to the prices of farm products. But it can be said if they do no more than hold their present level for the next few years land incomes will just about maintain their present level.

But if land incomes do no more than hold their present level, land values can be expected to decrease still further. For the present level of land values, if the Iowa figures are typical, are based upon expected increases in income and if these increases are not forthcoming in the next few years they will cease to be expected and land values will decline further.

* * *

In may, 1923, a survey of all real estate boards of the country, made by the National Association, showed that 66% of the cities were supplied with sufficient money for real estate financing while 27% of the towns reported a shortage of mortgage money.

Write for a copy of the "Survey of the Farm Lands Market" (October, 1923) and "Standardization of Farm Land Appraisals" (November 1923) which will be forwarded on request by Herbert U. Nelson, Executive Secretary, National Association of Real Estate Boards, 220 So. State Street, Chicago, Illinois.

LAND CONTRACTS AS COLLATERAL FOR BOND ISSUE LOANS

By JOHN STALKER
Vice-President, Union Trust Company, Detroit.

CHAIRMAN CODY: We regret that this division could not meet for ten days, as there is plenty to occupy our time with the reports that have come in. For instance, here is a very valuable report from the Committee on Contract Sales.

In this connection, I want to call on a member of this audience to cover a point Mr Reep has raised as to second mortgages and contracts, and it will also answer a question of yesterday regarding collateral trusts.

The speaker is vice-president of the Union Trust Company, of Detroit, which has the distinction of having loaned, in one year's time, for the Metropolitan, ten million dollars, almost all in small loans on homes, a record that I am sure has never been equalled in the loan business. Mr. Stalker, at lunch today, mentioned the method used in Detroit in issuing bonds secured by land contracts as collateral. I want to ask Mr. John Stalker of Detroit, to explain that plan.

Mr. John Stalker (Detroit): The scheme we have used in Detroit covers land contracts, either on improved or vacant property, the placing of those contracts in the hands of a trustee, and the owner of those contracts executing a series of bonds, secured by the contracts, which bonds are sold in the open market. In many cases it is possible to finance a real estate proposition in that way that it is not possible to finance in any other way.

Let us suppose a sub-divider has a well-developed sub-division he has sold on land contracts to the amount of two million dollars, we will say. Those contracts are pretty well seasoned. By that I mean there is at least 25% paid, and from that point it will run on up to fifty per cent paid. That sub-divider is owing some substantial sums for improvements; perhaps the property is not wholly paid for, and he desires to complete payment. He will bring the proposition in to us, and we will possibly consider financing him to the extent of $750,000, or a million dollars, on a proposition of that character.

Now, these bonds which he will execute, and which we will buy and sell, run for ten years, with serial installments. That is, we either provide that so many bonds shall mature each year, or provide, out of a sinking fund, that so many bonds will be retired each year. It amounts to the same.

We frequently get a responsible guarantee to go with the bond issue. The Trust Company takes entire charge of the property, technically and legally. So long as we are satisfied with the manner in which the real estate man is handling it, it is left in his hands, so far as the completion of the sales is concerned, and things of that sort. But the Trust Company has the legal right at any time the situation calls for it, to step in, completely take over the property, and handle it for the benefit of the bondholders. So far as power of liquidation is concerned, we begin where the trustee under a mortgage arrives after foreclosure is completed. We start right away with complete power of action.

Title Placed in Trustee

The title is placed in our name; following which the Declaration of Trust, which takes the place of the ordinary Trust Mortgage, is placed of record, the contracts are assigned to us, and contract-holders are directed that payments must be thereafter made to us at our office. Disbursements for commissions, property expenses, etc., are made from our office on the O. K. of the realtor, so long as we are satisfied to permit him to do that. From each month's collections there is first set aside an amount for sinking fund purposes, to retire bonds and coupons. After that sinking fund is provided for, there is always a substantial sum of excess collections. We calculate our loan so that it will be so. That excess of collections is then available for the purpose of the realtor in developing the trust estate. In other words, he can put that money, or direct us to put that money which is in our hands, and as such part of the security for the bonds, back into his proposition, and help him work it out.

Realtor Free to Build

Of course, from the proceeds of the bonds, in the first place, we clear up the property, so to speak, get clear title and provide for improvements, if necessary. But after that, from excess collections the realtor is entirely free to go ahead and finance building programs on any reasonable basis of security he sees fit. Building loans of that sort we think can be made with perfect propriety up to sixty, seventy or seventy-five

per cent, because the bondholder is pretty well protected anyway, and we feel that building adds to the value of the sub-division as a whole, and hence to the bondholders' security.

I think that indicates in a brief manner the way the plan works. We also very frequently are willing to assist financially builders who have accumulated contracts on improved property. They may place those contracts in our hands and negotiate for an issue of bonds which we will purchase and sell.

The first issue of this character was brought out about two and a half years ago in Detroit. It was the pioneer in our city, but I think I am safe in saying that in Detroit there is today no more popular form of real estate bond than this. It is recognized as being self-liquidating, and I think a moment's thought will show how important that is. The ordinary industrial mortgage can be retired from only one of two sources, from excess income accumulated, or by a refunding operation. With these bonds, however, the normal, natural working out of the proposition provides funds for the payment of the loan in full, principal and interest.

I realize I haven't made this thing clear, but I will be glad to answer questions.

Discussion:

Mr. Townley Culbertson (Kansas City): I would like to ask about what the rate to the investor would be on that class of security.

Mr. Stalker: At the present time we are selling six and one-half per cent serial bonds at par.

Mr. Culbertson: What would you consider a fair charge for the Trust Company?

Mr. Stalker: We pay the market on the bonds, which ranges now between 90 and 94, depending on the security. The trustee charges 5% of the principal and interest for the collection of the contracts. I might say that the collection service with our company is a very important one, and a rather complete one. There are a number of realtors in Detroit who have found we can actually do better for them in the making of land contract collections than they can do themselves. There seems to be some psychological factor about making payments to a bank rather than to a real estate office. If a purchaser has any criticism, we simply decline to listen to that. Our job is to collect the money he has agreed to pay. We follow up collections, look after the payment of taxes, see that insurance is kept up, and all that.

Mr. Chas. W. Hoff (Chicago): I want to ask, when they turn this surplus fund over to the sub-divider to improve the property, do they then release part of the property so that he can put a loan on that?

Mr. Stalker: No, ordinarily not. Ordinarily when any piece of property gets into our clutches as Trustee, it stays there or its equivalent in value until the bonds are paid. Of course it can be taken out at any time by paying for it the amount it is fairly worth. It is a part of the provisions of the declaration of trust. But we do not permit bank mortgages, or insurance mortgages, to come in ahead of our lien.

Mr. Hoff: Then he cannot use the property to build upon it, without returning to you the amount of money borrowed?

Mr. Stalker: To a very large extent, we have been able to provide the entire cost of construction of the house on the property out of the excess collections.

Percentage of Land Contracts Loaned

Mr. J. C. Whelan (Toledo, Ohio): What percentage of the face value of your land contracts is represented by your bond issue loan?

Mr. Stalker: That, of course, is a question which in every case has to be determined on the merits of the proposition. It depends on a number of things, such as the location of the subdivision, and so forth. Fundamentally, we rely on the land. The title to the land is placed in the Trustee to begin with. On top of that, we have an agreement to purchase of from 100 to 1,000 or more people scattered over the town. Suppose the sub-division is well located, with the improvements in, and the line of development is in that direction, but suppose not more than twenty-five or thirty per cent of the money has been paid in on the contracts, I suppose we would in that case, having regard for the responsibility of the borrower, and all that, loan fifty, fifty-five, or sixty per cent of the unpaid balance of the contracts. There is always this check on that figure, however, that we insist that a conservative valuation of the property (and when our appraiser makes an appraisal, it is conservative) must be at least twice the amount of the bond issue.

When we come to a contract on improved property, where a man is living in his own home, and has paid a substantial sum down, we require ordinarily a ratio of one and one-half of contracts to one of bonds, but with the provision that the

appraised value underneath the contracts must be at least twice the bond issue.

Mr. Coe A. McKenna (Portland, Oregon): You take second mortgages under the same kind of provisions as you do clear property?

Mr. Stalker: We do not. In Michigan we use the land contract more than the second mortgage on account of our foreclosure laws. I have in mind a company recently organized in Detroit for the purpose of selling collateral trust notes secured by contracts subject to underlying mortgages. The idea of this company is to take land contracts, subject to mortgages, pledge those with the trustee, issue notes against them and sell these to the public. Their idea was they would be able to use these in considerable volume, particularly with people who had a direct interest in building operations, including material men, building contractors, and others. They have been only reasonably successful in doing this, and I believe the organizers who are men of high caliber, are rather disappointed up to date in their success.

Unless you can go to the kind of people we have in Detroit and say the obligation is a direct first lien, it is not very popular.

Mr. W. F. Findlay (Cleveland): What proportion of the property must be sold on contract before an issue will be taken?

Mr. Stalker: We depend primarily on the contracts themselves. Our loan is primarily on the contract. In addition to that, we take all the land the man has got. You never heard of a banker who refused security.

Mr. W. D. Wood (Kansas City, Mo.): What proportion of this business you finance is on completed property residences?

Mr. Stalker: There again you come to the individual case. However, I would say that 75% of the business of this character we are doing at do business with, I don't know would be generally helpful. However, I would say that 75% of the business of this character we are doing at this moment happens to be in largely vacant property. But there is always some building in the sub-division when we start, which increases as we go along.

Mr. J. R. Leverett (Council Bluffs, Iowa): Say $100,000 worth of contracts on improved property; say 25% to 30% of that has been paid down. They are good contracts. When you take this over you might allow me $75,000 bond issue?

Mr. Stalker: When you say you have $100,000, you have an unpaid balance of that amount?

Mr. Leverett: Yes.

Mr. Stalker: Well, we might consider a loan of that size, although $66,000 would be nearer our idea.

Mr. Leverett: When you take this, for what money you furnish me, you would give me $90, or $93, face value.

Mr. Stalker: As a ten year proposition.

Mr. Leverett: And would you charge 5% for taking care of that?

Mr. Stalker: Yes.

Mr. Leverett: And at the end of the time the collateral notes are paid up, you furnish me the balance?

Mr. Stalker: Yes, your property is turned back to you when your bonds are satisfied.

Mr. Leverett: So that would make 13% discount?

Mr. Stalker: Yes, but of course you must bear this in mind on that, the discount charged you for the purchase of those bonds—and by the way, you can sell the bonds anywhere you please, not necessarily to us—but that discount of anywhere from six to ten per cent runs over the ten year period, and within that time you see there are substantial volumes of collections coming in, which it is your privilege to turn over several times. So that the initial discount on the cost of the bonds is pretty well taken care of before the deal is closed.

A. H. Moore (Huntington, West Va.): It occurs to me that the developer is somewhat handicapped there, if I understand you correctly. Suppose he wants to sub-divide that property, and build houses on it. How can he get an absolute release to give somebody good title if he wished to pay cash? Could that be done?

Mr. Stalker: Yes, he is entitled at any time to a release of the property, when he pays the balance of the contract as it stood when turned in to us. Here, for instance, is a lot, and the contract is for $2,000. There is a balance unpaid of $1,500. When that $1,500 is paid, he is automatically entitled to a release of the lot. In the case of an unsold piece of property, the value of which is not determined at the time the pledge is made, that value is determined at the time of sale, but frequently some release price is agreed upon in advance which is very much more reasonable.

Mr. Shaffer (Michigan): Does the Union Trust Company of Detroit guarantee these collateral trust bonds?

Mr. Stalker: No.

Mr. Adolph Berman (Philadelphia): Is there any limitation as to the amount of the loan? What is the maximum, and what is the minimum?

Mr. Stalker: The first question to be considered is the question of security, if the security is adequate, we haven't so far been stumped by the size of the loan.

Mr. Berman: I mean the minimum. Would you take fifty thousand, or twenty-five thousand?

Mr. Stalker: Ordinarily, we don't like to be bothered with less than $100,000. But in some cases, where we are on excellent terms with the borrower, we will go lower than that.

Question: What territory is Mr. Stalker willing to cover with this plan?

Mr. Stalker: Very little beyond the city limits.

Chairman Cody: In your behalf, I wish to heartily thank Mr. Stalker for his valuable talk. (Applause).

COLLATERAL TRUSTS

A. F. STEELE

Assistant Treasurer, Warren Guaranteed Mortgage Company, Warren, Ohio

THIS Collateral Trust Agreement is probably an exceptional indenture, as our instructions to our attorneys in drawing it was to make it just as stringent as they possibly could for the protection of the investor.

Our idea in putting out this bond issue was not so much to obtain funds as it was to place the money of our company and what it stands for before the various financial institutions and establish a reputation for our company outside of our own vicinity.

A "Sample" Agreement

Extracts from the Collateral Trust Agreement between the Warren Guaranteed Mortgage Company and the Western Reserve National Bank of Warren, Ohio, as trustee, securing an issue of $400,000 of "Series A" first lien ten-year 6% collateral trust gold bonds. Dated July 1, 1922.

(Note: Copy of the complete agreement will be sent upon request as long as the supply holds out.)

Indenture

INDENTURE OF TRUST (herein called the "Indenture" or the "Collateral Trust Agreement"), dated for convenience the first day of July, A. D. 1922, but actually made and entered into this 6th day of September, A. D. 1922, by and between the Warren Guaranteed Mortgage Company, a corporation duly organized and existing under and by virtue of the laws of the State of Ohio (herein called the "Company"), party of the first part, and The Western Reserve National Bank of Warren, Ohio, a national banking corporation organized and existing under and by virtue of the laws of the United States of America, and authorized to act as trustee under the laws of the United States of America and the State of Ohio, as trustee (herein called the "Trustee"), party of the second part, the address of the Trustee being numbers 1-3 Main Street in the City of Warren, Ohio.

WHEREAS, The Company is authorized by law to borrow money and to issue its negotiable bonds therefor and secure the payment thereof by the collateral pledge of securities owned by it; and

WHEREAS, The Company, by action of its Board of Directors at their meeting duly called and held in the City of Warren, Ohio, on the 27th day of June, 1922, duly authorized its President or Vice-President and its Secretary to execute and deliver to the Trustee, for certification by it, as hereinafter provided, its coupon bonds in the aggregate principal amount of Four Hundred Thousand Dollars ($400,000), to be known generally as its "Series A First Lien Ten-Year Six Per Cent Collateral Trust Gold Bonds" (herein called the "Bonds"), to be in the denominations and principal amounts of One Thousand Dollars ($1,000), Five Hundred Dollars ($500) and One Hundred Dollars ($100), to be dated the first day of July, A. D. 1922, and to be numbered and mature as follows, to-wit:

Bonds in the Principal Sum of $1,000

Bonds Numbered (Both Inclusive)	Dates of Maturity	Amounts
M- 1 to M- 28	July 1st, 1925	$28,000.00
M- 29 to M- 56	July 1st, 1926	28,000.00
M- 57 to M- 84	July 1st, 1927	28,000.00
M- 85 to M-112	July 1st, 1928	28,000.00
M-113 to M-140	July 1st, 1929	28,000.00
M-141 to M-168	July 1st, 1930	28,000.00
M-169 to M-196	July 1st, 1931	28,000.00
M-197 to M-224	July 1st, 1932	28,000.00

Bonds in the Principal Sum of $500

D- 1 to D- 38	July 1st, 1925	$19,000.00
D- 39 to D- 76	July 1st, 1926	19,000.00
D- 77 to D-114	July 1st, 1927	19,000.00
D-115 to D-152	July 1st, 1928	19,000.00
D-153 to D-190	July 1st, 1929	19,000.00
D-191 to D-228	July 1st, 1930	19,000.00
D-229 to D-266	July 1st, 1931	19,000.00
D-267 to D-304	July 1st, 1932	19,000.00

Bonds in the Principal Sum of $100

C- 1 to C- 30	July 1st, 1925	$3,000.00
C- 31 to C- 60	July 1st, 1926	3,000.00
C- 61 to C- 90	July 1st, 1927	3,000.00
C- 91 to C-120	July 1st, 1928	3,000.00
C-121 to C-150	July 1st, 1929	3,000.00
C-151 to C-180	July 1st, 1930	3,000.00
C-181 to C-210	July 1st, 1931	3,000.00
C-211 to C-240	July 1st, 1932	3,000.00

WHEREAS, In order to secure the payment of the principal and interest of the Bonds equally and ratably without priority or preference, the Directors of the Company at said meeting duly authorized the assignment and deposit in pledge hereunder of the securities hereinafter described and the execution and delivery of this Indenture and the form of the Bonds and of this Indenture was at said meeting approved and the execution by the Company of the Bonds and of an Indenture in the form hereof was authorized and directed and the bonds so approved and authorized are in the words and figures following, subject to the necessary variations in the principal amounts, issue numbers and dates of maturity and payment thereof, that is to say:

UNITED STATES OF AMERICA
STATE OF OHIO
THE WARREN GUARANTEED MORTGAGE COMPANY
First Lien Collateral Trust
Six Per Cent Ten-Year Gold Bond

Number..... SERIES "A" $.....

The Warren Guaranteed Mortgage Company, a corporation duly organized and existing under the laws of the State of Ohio (herein called "the Company"), for value received hereby acknowledges itself indebted and promises to pay to the bearer of this Bond, or if the same be registered, to the registered holder hereof, at the time hereinafter fixed for the maturity of this Bond, as indicated by its distinguishing number, the sum

of .....

.....Dollars ($.....)

unless before that time this Bond shall be redeemed and to pay interest upon said principal amount from date until said principal sum is paid at the rate of six per cent (6%) per annum, payable semi-annually on the first of January and the first day of July in each year upon the presentation and surrender of the interest coupons evidencing the same hereto annexed as they respectively become due and payable as provided therein. Payment of the principal and interest of this Bond will be made at the main office of The Western Reserve National Bank in the City of Warren, Ohio, in gold coin of the United States of America of or equal to the standard of weight and fineness as it existed on the first day of July, A. D. 1922, or in other lawful money of the United States of America equivalent in value thereto.

This Bond is one of a duly authorized issue of 768 coupon Bonds of the Company known as its "Series A First Lien Ten-Year Six Per Cent Collateral Trust Gold Bonds," dated July 1st, 1922, all of like tenor, date and effect save as to the principal amounts, issue numbers and dates of maturity thereof as indicated below, in the aggregate face amount of Four Hundred Thousand Dollars ($400,000). Bonds numbered M-1 to M-224, both numbers inclusive, being in the principal sum of One Thousand Dollars ($1,000) each; Bonds numbered D-1 to D-304, both numbers inclusive, being in the principal sum of Five Hundred Dollars ($500) each, and Bonds numbered C-1 to C-240, both numbers inclusive, being in the principal sum of One Hundred Dollars ($100) each, and maturing as follows, to-wit:

[Same as list on preceding page.]

All of said Bonds are issued or are to be issued under and are equally and ratably secured without priority or preference, by reason of priority of date of issue, negotiation or delivery, by a certain Indenture of Trust dated July 1st, 1922 (herein called the "Indenture"), duly executed and delivered by the Company to The Western Reserve National Bank of Warren, Ohio (herein called the "Trustee"), transferring and pledging to and with the Trustee, in trust, the Securities described in said Indenture, to which Indenture reference is hereby made for a statement of the Securities and the rights of the bondholders therein. A copy of said Indenture will be furnished upon demand to any holder of this Bond by The Warren Guaranteed Mortgage Company.

In case any event of default as defined in the Indenture shall occur the principal sum of this Bond may become or be declared due and payable in the manner and with the effect provided in the Indenture.

Bond May Be Redeemed—1% Premium

This Bond is subject to redemption at the option of the Company on any interest date prior to maturity at one hundred one per cent (101%) of the principal amount hereof, together with accrued interest upon at least six weeks' notice given in the manner provided in the Indenture. Interest will cease to accrue on this Bond from and after the date so fixed for its redemption unless payment be refused upon presentation of the same at or after the time specified in said notice.

This Bond shall pass by delivery unless registered in the owner's name in books kept for that purpose by the Trustee at its main office in the City of Warren, Ohio, such registry being noted on the Bond by the Trustee.

After registration no transfer hereof shall be valid unless made upon such registration books by the registered holder in person or by attorney and similarly noted on the Bond by the Trustee, unless the last registration shall have been made to bearer, but this Bond shall be subject to successive registrations and transfers to bearer at the option of each holder. The registration of this Bond, as above provided, shall in no event affect the negotiability of the interest coupons, which shall at all times be transferable by delivery.

No holder or owner of this Bond shall assert against any incorporator, stockholder, officer or director, present, past or future of the Company, any personal liability with respect to this Bond or the coupons hereto belonging, it being expressly agreed that any and all liability, either at common law or in equity or by statute, against any such incorporator, stockholder, officer or director, as such, is hereby waived and released as a condition of and consideration for the issue and delivery of this Bond.

This Bond shall not be or become valid or obligatory for any purpose unless and until it shall have been duly authenticated by the execution of the certificate hereon endorsed by The Western Reserve National Bank of Warren, Ohio, as Trustee.

This Bond and the Indenture securing the same, above referred to, have been executed and delivered by the Company within the State of Ohio and shall be construed and enforced in accordance with the laws of the State of Ohio.

IN WITNESS WHEREOF The Warren Guaranteed Mortgage Company has caused these presents to be signed in its corporate name by its President or Vice President and its corporate seal to be hereunto affixed, attested by its Secretary and the coupons hereto annexed to be executed by the facsimile signature of its Treasurer as of the first day of July, 1922.

THE WARREN GUARANTEED MORTGAGE COMPANY,

by.....
President.

Attest:.....
Secretary.

FORM OF COUPON

$..... On the first day of..... 19.....

THE WARREN GUARANTEED MORTGAGE COMPANY will pay to the bearer at the main office of The Western Reserve National Bank in the City of Warren, Ohio.

..... Dollars ($.....)
being six months' interest then due on its Series A First Lien Collateral Trust Six Per Cent Ten Year Gold Bond No..... unless said Bond shall have been called for previous redemption.

..... No.....
Treasurer.

TRUSTEE'S CERTIFICATE

It is hereby certified that this Bond is one of the issue of Bonds described in the Indenture within mentioned.

THE WESTERN RESERVE NATIONAL BANK, of Warren, Ohio—Trustee.

By .....
Trust Officer.

ARTICLE I. AMOUNT OF BONDS.

Section 1. The amount of Bonds hereby secured which may be executed by the Company and authenticated by the Trustee is limited so that never at any time shall there be outstanding Bonds of this Series A for an aggregate principal amount exceeding four hundred thousand dollars ($400,000). The amount of Bonds which may be authenticated and issued hereunder is further limited by the provisions of ARTICLE II hereof.

ARTICLE II. SECURITY.

Section 10. At or before the time of delivery to the Trustee by the Company of Bonds to be authenticated, the Company shall deposit with the Trustee, collateral of the fair value as hereinafter defined of not less than one hundred fifty per cent (150%) of the face amount of Bonds so delivered to be authenticated.

Section 11. The amount and value of the Collateral deposited or to be deposited hereunder shall be kept and maintained at all times in such an amount that its fair value, as herein defined, shall be not less than one hundred fifty per cent (150%) of the aggregate face amount of all Bonds at any time outstanding hereunder.

Section 12. The Collateral to be held as security under this Indenture shall consist of the following:

(a) Notes bearing interest at not less than 6% per annum secured by first mortgages upon

real estate located in Ohio, which real estate shall be of a valuation determined by actual appraisal made at the time of the acquisition of the obligation by the Company, no mortgage to be on undivided interests in property nor upon leaseholds, or buildings used principally as churches, club houses, or theatres. The foregoing securities are sometimes hereinafter referred to as "Mortgages" or "Mortgage Securities."

(b) Bonds or other interest bearing obligations of any corporation duly organized and existing under the laws of the United States or of any State of the United States secured in whole or substantially so by a mortgage on real estate situated within the United States, which Securities are sometimes hereinafter referred to as "Corporation Bonds."

(c) Bonds of the United States of America, of any State of the United States, or any subdivision of any such State or of any Municipality, such securities being sometimes hereinafter referred to as "Government Bonds."

Provided, however, that gold coin of the United States of America or other lawful money of the United States acceptable to the Trustee, amounting to the par of Bonds and accrued interest, may be substituted for any portion of said Collateral.

Section 13. The fair value of the Collateral shall be fixed by the Appraisal Committee of the Company, subject to the approval of the Trustee, and shall not exceed:

(a) In the case of Mortgages or the Notes secured thereby, the total amount of indebtedness due the Company thereon, not exceeding sixty per cent (60%) of the appraised value of the property covered by each such Mortgage exclusive of liens as determined by the Appraisal Committee of the Company and approved by the Trustee. In determining the valuation of such property, the existence of party wall agreements, restrictions as to the use of the property, taxes and assessments not yet due, leases or other like encumbrances upon the title of the mortgaged property not calling for the payment of money by the mortgagor shall not be considered in arriving at the amount of such liens.

(b) In the case of Corporation Bonds seventy-five per cent (75%) of the par value of such Securities, or of the purchase price thereof to the Company, or of the current market price thereof, whichever shall be lowest.

(c) In case of Government Bonds eighty-five per cent (85%) of the par value of such securities or of the purchase price thereof to the Company, or of the current market price thereof, whichever shall be lowest.

The Appraisal Committee and the Trustee in fixing the fair value of such Securities shall not however be limited to the factors specifically hereinabove set forth, but may take into consideration any other factors in their opinions affecting the actual value of such Securities.

COLLECTIONS BY THE COMPANY.

Section 18. Until default in the payment of principal or interest of the Bonds, or any of them, or in the performance or observance of any of the covenants or conditions contained in this Indenture of Trust, the interest and principal of the Collateral Securities deposited hereunder may be collected by the Company. The Company shall, however, render quarterly statements to the Trustee on the first days of January, April, July and October of each year, which statements shall be verified under oath by the President, a Vice President, Secretary or Treasurer of the Company, showing the amount of each Note and Mortgage, the amounts paid thereon, with date or dates of payment and the amount remaining due thereon, likewise similar information as to payments of principal and interest made upon other kinds of Collateral, which may at the time be on deposit with the Trustee hereunder. If it shall appear from such verified statement or other information which the Trustee may possess or obtain that the Collateral on deposit with the Trustee is being maintained in the amount and value hereinbefore provided, the Company shall not be obliged to deposit the amount of the payments so made and collected on account of principal and interest derived from such Collateral on deposit with the Trustee, but if it shall otherwise appear from such statement and information, then the monies so paid and collected shall forthwith be deposited with the Trustee.

Substitution of Other Securities

Section 20. The Company shall have the right at any time and as often as desired, to substitute for any of the Pledged Securities other Securities of the kind and character hereinbefore described of at least equal fair value, or to withdraw such Securities without substitution so long

as the requisite amount and character of Collateral is at all times maintained.

Section 44. The holders of one-fifth (1-5) in amount of the outstanding Bonds may at any time require an independent appraisal of the entire Collateral constituting the Trust Estate, to be made by an appraiser selected by the Trustee with the consent of the Company. The cost of such appraisal shall be paid by the Company in the event that it is found by such appraisal that the Collateral is below the requirements hereof as to amount, or as to kind and character; otherwise the cost of any such appraisal shall be paid by the requesting Bondholders.

Section 49. The Company covenants that:

1. In case default shall be made in the payment of any installment of interest on any of the Bonds, when and as the same shall have become payable as therein expressed, and such default shall have continued for a period of sixty (60) days, or
2. In case default shall be made in the payment of the principal of any of the Bonds, when and as the same shall become payable, whether at maturity or by declaration as provided in Section 37 of this ARTICLE V or upon a sale as provided in Section 40 of this ARTICLE,

then, upon demand of the Trustee, the Company will pay to the Trustee, for the benefit of the holders of Bonds and coupons entitled to receive such principal and interest so in default, the whole amount that then shall have become due and payable, for such interest or principal, or both, as the case may be, with interest upon the overdue installments of interest at the same rate as shall be borne by the Bonds on which such interest shall be in default; and in case the Company shall fail to pay said amount so due and unpaid, forthwith upon such demand, the Trustee, in its own name, and as the Trustee of an express trust, shall be entitled to recover judgment therefor.

Many Ohio Banks

are buying these bonds

WHEN BANKERS invest the deposits of their institutions in a certain bond, it is a good indication that it is a desirable investment.

This is what is happening in the case of the First Mortgage 6% Collateral Trust Gold Coupon Bonds of The Warren Guaranteed Mortgage Company, of Warren, Ohio.

Individual investors, likewise, appreciate the unusual security back of these bonds—practically four to one—and the yield is exceptionally high for this grade bond. Maturities 1925 to 1932

Denominations, $1000, $500, $100

Price to yield about 6.50%

Write or phone for details.

The Western Reserve National Bank

of Warren, Ohio

Mr. M. J. HALL, *Manager* Bond Department

Ad in* FINANCE & INDUSTRY, *Cleveland, June 1923

PARTICIPATING CERTIFICATES

(COMMITTEE CHAIRMAN TO BE SELECTED)

THE participating certificate method of selling real estate mortgages is used by many concerns throughout the United States. The Bankers Trust Company of Detroit, Mr. Walter Brandon, Vice-President and Manager, uses the following form, which he kindly furnished this Division.

This company's plan is to make the mortgage direct to their company with one note for the total amount and then dispose of the loan through the sale of these Participating Certificates for any amount that the investor desires to take in that particular loan.

FORM OF PARTICIPATING CERTIFICATE

Mortgage No.

Series No. Certificate No.

BANKERS TRUST COMPANY
Of Detroit

(Hereinafter Designated "the Company")
In Consideration of

The sum of..... Dollars which amount is hereinafter designated "the principal" paid to it by the Bearer hereof, hereinafter designated "the holder," receipt of which is hereby acknowledged, does hereby sell, assign, transfer and set over to the holder, subject to the conditions hereinafter set forth, a proportional undivided interest in that part of a certain note maturing.....

.....of such note dated.....given by.....

.....

..... to .....

for the sum of..... Dollars

payable as follows:.....

.....

.....

with interest, said note being secured by real estate mortgage, given by said payor to said payee, of even date with said note, and recorded in the office of the register of deeds for Wayne County, Michigan, in liber.....

page.....of mortgages, and a like proportional interest in such mortgage.

To have and to hold such undivided interest in such note and mortgage to the holder hereof, subject, however, to the conditions hereinafter stated, mutually agreed to by the company and the holder hereof:

1st. This assignment is one of a series of like assignments of undivided interests in said note and mortgage issued or to be issued by the company, which assignments do not and shall not in the aggregate exceed the face value of said note and mortgage, and shall pro rate with such other assignments and shall be neither superior nor inferior but simultaneous and co-ordinate with such other assignments.

2nd. The holder irrevocably appoints the company his, her or its agent and authorizes the company in its own name:

(a) To receive, collect and give acquittance for the sums owing upon said note and mortgage as they mature, and upon full payment to discharge such mortgage from record.

(b) To collect, receive, adjust, compound and give acquittance for any claim for loss or damage by fire to the mortgaged premises.

(c) To exercise any of the rights, privileges or options in said mortgage given to the mortgagee.

(d) To institute any legal or equitable suit or proceedings necessary or requisite to carry out the authority granted.

3rd. The company agrees with the holder:

(a) To cause the mortgagors to maintain fire insurance and pay all taxes upon the mortgaged premises as in the mortgage provided, and if default be made, to pay such taxes and effect such insurance and save the holder harmless from any default of the mortgagors therein.

(b) To hold said note and mortgage separate and apart upon its books for the benefit of the holders of assignments of this series until all assignments mature or are paid as herein provided.

(c) The "principal" of this assignment shall be due to the holder on presentation of this certificate simultaneous with the maturity of the installment of said note and mortgage in part hereby assigned.

(d) The company shall pay the holder the principal as and when collected from said note and mortgage, but in any event within eighteen months after demand of the holder made to the company subsequent to the due date of the principal fixed in the preceding paragraph on surrender of this certificate.

(e) The company will pay the holder interest upon the principal according to the coupons hereto attached on presentation of such coupons at its office at maturity.

(f) The company will if this certificate is presented for payment on the due date fixed in subdivision "C" of the paragraph, and not then paid because of non-payment of such note and mortgage pay the holder interest on the principal from such due date until paid at the rate of six per cent per annum.

4th. The company shall bear all expenses of the agency and in the handling and collection of said note and mortgage and shall keep and retain for its services all sums received by it from said note and mortgage over and above the amounts to be paid to the holder under paragraph 3 hereof as compensation for its services.

5th. The holder shall present the certificate to the company at its office for payment at maturity and in default of presentation thereof, the principal shall be deposited with the company as a trust deposit for the benefit of the holder and interest thereon shall cease.

6th. This certificate of assignment may be registered on the books of the company and unless so registered and noted hereon, the company may deem and treat the holder (bearer) of this certificate as absolute owner of such certificate for the purpose of receiving payment thereof and for all other purposes and shall not be affected by any notice to the contrary.

7th. Upon sixty days' notice, "the Company" reserves the option to repurchase the interest transferred by this assignment on any interest period date after one year from date of mortgage upon payment of par and accrued interest, and a premium of one (1%) per cent if repurchasedbefore maturity.

8th. The conditions and stipulations herein contained shall bind the successors, heirs and assigns respectively of the company and the holder.

IN WITNESS WHEREOF, the company has caused this instrument to be executed by two of its officers, duly authorized to act in behalf of the company, and its corporate seal to be hereto affixed, this..... day of.....19.....

BANKERS TRUST COMPANY
of Detroit

By .....
President-Treasurer.

.....
President-Secretary.

FORM OF COUPON

BANKERS TRUST COMPANY OF DETROIT

on the.....day of.....19.....
at its office in Detroit will pay to bearer the sum of

DOLLARS
being on account of interest then payable on the note and mortgage described in the mortgage certificate

No.....Series No.....
and such payment is made without prejudice to the interests or rights of mortgagee in the mortgage therein described. This coupon shall not be valid unless signed by its treasurer or other officer duly authorized.

.....
$ Secretary. President. Treasurer.

OFFICE PROCEDURE AND FORMS

GERALD G. E. STREET, Chairman
President, Street & Company, Boston, Massachusetts

IN SOLICITING business, we cannot stress too strongly the necessity of having positive commitments from borrowers for a stated length of time; this insures better service by not having a loan offered to lending institutions through several sources and especially by enabling the broker to "deliver the goods" when favorable action is taken. Too many failures to do this will tend to shake the confidence of the lender and in the end will work serious havoc with any man's business.

Further, the lenders should be shown in a definite way that unnecessary delays must not be countenanced and that every effort must be made to put loans through promptly. The results are naturally more satisfying from every angle; the quicker the papers are in readiness, the quicker the money brings a return; and this reduces to a minimum the possible excuse for the withdrawing of applications.

Advantages of Amortization

Amortization of Mortgage Loans in and about Boston is fairly new, and it is more or less of a campaign of education to put it across, but the principle involved is worth while:

1. It reduces the likelihood and dangers of foreclosure—a feature to be desired alike by the lender and borrower.

2. It forces owners to save money out of income on property, thus inculcating lessons and habits of thrift—much needed in America. (Most European countries—notably thrifty France—use the long term amortization mortgage plan.)

3. Capital payments, regular though small, insure the lender against depreciation of property.

In my opinion it is only a question of a few years when the practice will be quite general; for the present with an abundance of money for mortgage investment, and sharp competition, it is difficult to further the amortization idea.

State the Facts and Be Frank

In conclusion, I wish to point out that greater service to the public can be brought about by stating the facts at all times. Whenever in doubt, say so frankly and offer to furnish information from sources at your command and in this way you not only gain the respect of those you are brought in contact with, but at the same time construct a firm foundation for your business.

With the foregoing, I am submitting reports from Mr. G. W. Williams, Vice-President of the Iowa Loan & Trust Company of Des Moines, Mr. J. B. Sleeper, Vice-President of the Pioneer Mortgage Company, Topeka, Kan., and Mr. Roy A. Kirkpatrick, Assistant Secretary of the Bankers' Guarantee Title & Trust Company of Akron, Ohio, and the Willock Realty & Loan Company, Kansas City, Mo., members of my Committee.

It had been my intention to submit forms in use in various parts of the country, but on consideration it does not seem best to attempt to cover this phase of the question this year—time is too limited to prepare the subject in a comprehensive way. However, a standard form might well be adopted throughout the country, of course modifying it to fit the possible legal changes of the different states.

Report From G. W. Williams, Vice-President of Iowa Loan & Trust Company Bank, Des Moines, Iowa

1. What type of loans do you make?

"We do a general mortgage loan business, including both farm and city loans."

2. Outline your opinion of the best present practices in connection with the above subject.

"Each concern must develop a system best fitted to handle its particular type of business, and in our office we are constantly striving to perfect a system which cuts down the delay in examining property, drawing papers, perfecting title, and furnishing the money in the least possible time."

3. What suggestions do you have for improvement in present methods?

1. As to better service to the public:

"Cut down the delays."

2. As to better service to realtors:

"Adopt a uniform set of applications and other blanks."

4. Additional facts, opinions and suggestions.

"Suggest consideration of some way to make the mechanics' lien law more equitable to lenders of funds."

Report From Wilcox Realty & Loan Company, Kansas City, Missouri

1. What loans do you make?

"Almost all of our business is first mortgages for about 50% of the value of the property. If the loan is made to an individual building his own home he usually has the balance necessary to finance the building. If the loan is made to a builder who builds to sell, he has money to finance it above first mortgage and then sells it on a cash payment of about 10% of the sale price and takes back a second mortgage for balance."

2. Outline your opinion of the best present practices in connection with the above subject.

"When application is made to us for a loan, if, in our judgment, it is an acceptable loan, we take a written application for the loan, setting out all the details, such as a full description of the property, the owner's value of same, the rate of interest and commission and the amount of fire and tornado insurance to be carried and binding the applicant to take the loan or to pay the commission agreed on if the loan is accepted within ten days."

3. What practices, if any, should be discontinued?

"Taking oral applications, as they will often ask several agents to look at their property at the same time in regard to making a loan and accept the best proposition offered. We do not think there is enough margin in first mortgages to compete in this manner."

4. What suggestions do you have for improvement in present methods?

1. As to better service to the public:

"We have no suggestions to make as to improving the service to the public as we think the service is perfect now."

2. As to better service to realtors:

"Discourage curbstone brokers who act between the borrower and the loan agent to participate in the commission."

5. Additional facts, opinions and suggestions.

"We think too many agents lend entirely too much on first mortgages in times of easy money when competition is keen and good loans hard to get. This goes to educate the public to expect fuller loans than should be made."

Report From J. B. Sleeper, President of Pioneer Mortgage Company, Topeka, Kansas

Business Handled

THE PIONEER Mortgage Company is a Kansas corporation, operating in both Kan- and Oklahoma alike, with offices at Topeka and Oklahoma City, heading separate and complete organizations with the exception of the financing and collections which are handled at Topeka for both states. Its operations are confined to farm and city mortgage loans, representing as financial correspondent of the Travelers Insurance Company of Hartford, for Kansas and the Metropolitan Life Insurance Company for Oklahoma, these connections furnishing a steady flow of funds which takes care of approximately sixty per cent of our production, the balance being sold to other investors, made up of individuals, savings banks and insurance companies, who buy when in funds.

The Best Practices

The practice of careful selection as applied to sub-agents, with investigation and examination of security by only salaried examiners or officers of the institution, prompt service on the part of the lending company together with a fair rate to the borrower and investor alike with the proper service to both during the life of the loan will surely bring success to any lending institution that has the confidence of the people at large.

Wrong Practices

While misleading advertising and the failure on the part of sub-agents or the lending company's representative to make perfectly clear to the borrower all details, such as pre-payment privileges and the difference between interest and commission, etc., not only spells ruin for the lending company, but works a hardship on ethical concerns. The practice of accepting the report on securities of any one, interested only on a commission basis in case the loan is made, is fundamentally wrong and the practice of some concerns to accept such reports and using them in offering their securities for sale is vicious, because an investment banker of ability knows that in ninety per cent of such cases, the valuations are optimistic to the limit. The same is true of landing companies who accept the selling price as the real value of city properties, built by building companies and sold on an easy payment plan, and there are plenty of cases where the twenty per cent cash payment represents practically the only real equity above the

first mortgage, placed for the big insurance companies, supposedly on a fifty per cent basis.

Avenues of Improvement

(a) The public is entitled to a clear and thorough understanding of all restrictions in the loan contract offered, also their money when disbursement is due under the terms of their agreement, and lending companies have no right to make the borrower wait until the business finances itself, which is not an uncommon practice.

(b) Better service to realtors is inevitable when the realtors recognize more responsibility in presenting their applications for loans and it is my guess that any realtors, complaining of service from investing companies, are entirely to blame for their troubles.

(c) Office methods can always be improved, but the outstanding field for improvement is the matter of efficient indexing and cross indexing, together with a proper follow-up system, and above all **courtesy with unlimited service.**

Report From Roy A. Kirkpatrick, Assistant Secretary, Bankers' Guarantee Title and Trust Company, Akron, Ohio

OUR BUSINESS is limited to first mortgage loans exclusively. We represent a number of life insurance companies in the investment of their funds in this class of security, and in addition make loans on our own account for sale to individual investors and as security for collateral trust bonds which in turn are sold to individual and corporate investors. The large volume of our business, however, is in housing loans for insurance companies.

Loans Made

Among the various types of loans which are made are the following:

A. For a term of 5 years with semi-annual interest payments and with annual reductions of principal amounting to 5% of its original amount.

B. A 5-year monthly payment loan requiring principal payments of one-half of 1% each month and the interest payable monthly.

C. Amortizing monthly payment loans which pay out in 142 months. Principal payments on this loan amount to $7.00 per thousand per month, and the interest is payable monthly on the unpaid balance of the preceding month. This loan is limited to residence properties not over three years old.

D. A 15-year loan on which principal payments of 3% are made semi-annually and the interest is paid semi-annually.

On loans of classes A, B and C, the borrower has the option of making additional principal payments in multiples of $100.00 on any interest payment date.

On loans in class D the borrower has prepayment privileges in full or in part on any interest payment date after three years. Under this plan, residence property construction loans are made.

Guarantee to Investor for One-Half Per Cent

On loans which are made for our own account we make it a practice to guarantee payment of principal and interest to purchaser of the loan, and for our guarantee the loan is sold at ½% less interest return than the borrower pays.

The Second Mortgage Problem

From the standpoint of the borrower, there is one difficult problem and one which greatly retards the acquisition of the homes by their owners —that is, the heavily discounted short term second term mortgage.

The majority of first mortgage lending institutions in our vicinity believe that all long time first mortgage loans should provide for some small reductions of principal. If these payments of principal and interest are computed on a monthly payment basis and in addition thereto the prospective home owner, who is a wage earner, has to plan on a heavy monthly reduction of a second mortgage which does not run over three years, the aggregate of his mortgage payments, together with taxes and insurance on his property brings his property payment requirements beyond his ability and is very liable to leave him stranded and homeless if his employment happens to cease for even a short time.

If homes are to be provided for working men and we are to make good citizens of them, it appears that whatever financing plans are adopted in a community should spread his payment burden over a longer period than is ordinarily prevalent.

Realtor Needs Speedy Service

Our experience has been that the average realtor is interested in obtaining a maximum amount of first mortgage loans without very much regard for anything else. The element of speed in closing a loan transaction is one which is uppermost in the realtor's mind, and everything which will bring about that end is of course appreciated by him.

Our own experience is that if borrowers are treated courteously, fairly and expeditiously, in whatever office they transact their business, that the institution practicing such methods acquires thereby indirect advertising which is much more potential than any printed circular or newspaper publicity which can be purchased.

ADVERTISING

C. S. LEBEY, Chairman, Savannah, Georgia

SUCCESSFUL advertisers realize that they must advertise consistently and continuously. In fact, advertising is like running a furnace, the coal must be continually shoveled in to keep the fire burning, and to produce the heat.

What Makes a Good Ad

The general requirements of an advertisement or letter calculated to sell mortgages, mortgage bonds, or participating certificates, are the same as those of a good letter or an advertisment of any other type. Such an advertisement or letter should have Attention-Getting-Value, logical information or argument leading to the desired conclusion, and close with stimulation of the desired action on the part of the prospect.

Structurally, it should be pleasing to the eye, and easily legible. It must be dignified in appearance, language and style. Flippancy and levity, which might be tolerated and even productive in selling many ordinary articles, cannot be expected to establish the confidence necessary to sell securities by correspondence. The question of instilling confidence is important. It is the keynote without which this kind of advertising or a letter on the subject is likely to fail. Confidence may be gained in various ways; by conservatism and dignity, by avoiding superlatives and exaggerated language; by reference to the age, past favorable record and personnel of the men associated with the institution, its growth, conservative policies and sound, helpful service.

As to sentence and paragraph construction, the short, curt sentence is not adapted to financial advertising, nor is the one sentence paragraph. If the individual is interested, he will read the advertisement, although it is detailed and long. The savings of a life time are not going to be invested or deposited until the investor is fully convinced of the character of the institution with which he is dealing, and this cannot ordinarily be accomplished in a few sentences.

Study Prospects Intensively

One of the great problems of selling real estate securities either by advertising or by mail, is to ascertain the education, experience and circumstances of the prospect. It is useless to offer $1,000 bonds to $100 buyers, and it is an injustice to sell an inactive security to one to whom convertability is an item of great importance. Again with an inexperienced investor, considerable educational matter such as circulars, etc., may be necessary to effect a sale, although the same would be unnecessary, and perhaps offensive if sent to an experienced buyer. Therefore, to adapt your advertising to the needs of the one for whom it is intended, should be one of the main objectives.

For the maintenance of interest, care must be exercized in the use of statistics, and essential although uninteresting facts. Usually such matter can be more effectively used as an enclosure.

Good follow-up letters are necessary, as it frequently happens that sales are made in substantial amounts after a prospect has been given up as hopeless.

The gaining of confidence is frequently not a matter of a single letter, but a series of letters over a number of months, or even years. Follow up letters should be informative so that the recipient comes to feel that he cannot afford not to read them. Whether such letters are immediately productive or not, if you are satisfied of your prospect's interest, they cannot fail to create a good impression, and in many instances will accomplish the desired purpose. Then, too, there is the repeat business, another important reason for the follow up.

Give Them These Facts

A prospective purchaser of securities will desire the following information:

1. Security of investment.
2. Whether or not there is a fixed rate of interest.
3. Is there a fair return in income for the money invested?
4. Are the securities salable without difficulty in the event the buyer desires to dispose of them?
5. Will the securities be acceptable as collateral by the banks?
6. Are the securities free from care or worry?
7. Are the securities sold in convenient units or denominations?

Of these investment qualities the three that receive the most investigation are:

Security,
Income,
Marketability.

CONSTRUCTION LOANS AND DISBURSEMENTS

E. H. Seeman, Chairman
E. G. Pauling & Company, Chicago

CONSTRUCTION loans—another term for building loans, hardly require an introduction to the building industry, the real estate profession, or the mortgage loan investor. They have become one of the best known methods of improving vacant property, whether for residential or business purposes, and for financing an industrial venture. With real estate as a base, the construction loan has reached its present advanced state of development through a process of evolution.

Going back thirty years, the full continuous service of the writer, there were a few—not over half a dozen—firms in Chicago who made the then called "building loans." No doubt some form of building loan was made even before the advent of the Mortgage Deed, when the handclasp between man and man was safer and better than a bond, and when it was said of a man that his word was as good as his bond.

In the Early Days

In the early days the prospective borrower for a small loan would only describe his building; or if a loan of several thousand dollars was wanted, he would exhibit a set of plans, the broker would consider the number of stories, area, and general effect of the elevation, which would guide a mental appraisal of the property to the acceptance of the loan; the abstract would be continued, and the Trust Deed then examined by an attorney—at that time the Guarantee Policy had not been invented—and if the title was found good the money was advanced the owner almost to the latter's convenience or desire. Very, very, seldom was a loan overdrawn, or the contractor found short in his payments. If the owner was short on funds, or the loan insufficient when the last payment became due, the contractor had recourse to the Courts with the judgment against the borrower.

As previously stated, evolution developed the shoe-string builder, subdivider, and contractor, so that material men, contractors and the mortgage houses altered their methods, and for some time have vied with each other for protection of their respective interests, each against the other. Material dealers and contractors have the Mechanics' Lien Laws to protect them against the owner and mortgage house, while the latter, especially the large firms, have a trained force almost scientific in operation, to safeguard their moneys against raids by contractors, builders, or shady borrowers.

"The Changing World"

The few firms who made these loans in the early days were considered brave men, and the public felt they had earned their commission after going through the arduous task of making payments, so as to protect themselves from the technicalities of the Mechanics' Lien Laws. When individuals, fire and life insurance companies, who in the olden days were heavier buyers of real estate loans—in proportion—than they are now, and when banks were prevented from making building loans, the mortgage houses carried loans for at least four months, the time limit at that time required for the expiration of lien claims, and then proceeded with the sale of the notes and mortgage. This, however, was not so much of a hardship, as the broker took his notes and Trust Deed to the bank and borrowed one hundred per cent of their face value. This latter custom was—like all good things—abused, so that now complete papers must be presented, including Guarantee and Insurance Policies, and only ninety per cent of the amount actually paid out on the building loan is allowed. In this procedure the banks are right, as many a bank has become the owner of a building loan due to the failure of the mortgage house to make good.

Banks Now in Field

Not only in the matter of banking facilities has evolution changed the field of the broker, but now he finds banks galore his keenest competitors, who not only want his bank deposit, but enter into direct competition with his business. In addition the banks not only have real estate departments, but openly solicit the buying and selling of real estate as actively as any real estate firm. Golden days for the thrifty loan broker—Alas! they are gone forever.

In the last few years the intricacies of the construction loan have become so well known that their final consummation is practically perfected and identical in the various offices. In all cases the architect is engaged, the real estate is studied, allotted to its best use, and a building is designed which is best adapted for its environment. In drawing the plans the best effects, the utmost returns, and a favorable impression is striven for, to influence the lender to not only approve the loan, but to negotiate the same for the maximum amount. The plans are then studied in turn by the loan house, and if too large for them to estimate, or if unfamiliar with the type of building to be erected, an architect, contractor, or

engineer is called to give his views not only as to the cost, but its fitness for the purpose for which it is to be built. Here again the larger firms have so developed their official family that they not only employ architects and engineers, but experts, lawyers, etc., covering every possible use to which the improvement on real estate may be utilized, and even to the various industries as an industrial project.

Introduction of the "Real Estate Gold Bond"

The greatest stride in the construction loan has been made through the so-called "Real Estate Gold Bond." While absolutely safe and eminently sound, it is in some cases almost revolutionary from a real estate loan proposition, as in a real estate loan the securities should balance approximately the same in proportion to the amount as in the case of an individual mortgage.

Strong Points of Bond Method

While the motive prompting the financing of the problem is not under discussion, the merits and professional effects of a bond issue are far-reaching. On the basis of a real estate loan pure and simple, it has made possible two very important features: **first,** by dividing the principal into units of one hundred, five hundred, and a thousand dollars, a building requiring a large loan can now be negotiated by selling these units to many purchasers, when in the old way very few persons could buy the large loan. This is of incalculable good to real estate in that large projects can be financed, thereby enhancing the values of real estate, improvements to cities through monumental structures, besides the benefits of ultra-modern appointments and their attendant conveniences. **Second,** the Real Estate Bond has given every investor an opportunity to put his first hundred dollars saved—even less, as partial payments are now accepted—at interest, while the person with thousands can buy such units or multiples thereof as he desires—there is no limit.

Making a Construction Loan

The steps usually taken for a construction loan may be summed up as follows: a fair and liberal value of the real estate may safely be considered, as a vacant lot, or lot with the old improvements removed enhances the value of the land to a marked degree. The value of the building to be constructed is not an easy problem. The actual cost may be ascertained, but a knowledge of affairs contingent upon business changes, character of business, a vision of possible improvements, or deterioration of the neighborhood, fluctuations in the building costs, all of which indicates that, not only as to the real estate itself, but in building also, experience in the real estate loaning business is a factor of the first magnitude to negotiate safe loans. If a loan is placed on a pure real estate basis, a loan slightly in excess of fifty per cent or even a little more is safe, especially if serial payments on the principal are incorporated in the loan. If, however, a loan is made on the basis of capitalized income, great care and study is required, and a fair gift of prophecy is of vital importance.

Supply and Demand

Naturally the law of supply and demand, as in all business, is a factor in the amount of the loan placed on the property involved. Tight money, slow sales of bonds or individual loans, may even prevent the making of a loan. On the other hand, if there is a good market or outlet, loans are not only eagerly sought, but are more liberally negotiated; in fact all the property will stand. This applies alike to individual and bond issue loans.

Disbursements

In the matter of disbursing the loan there is invariably an agreement made between the lender and the borrower as to the amounts and times of payment, while the method of loan houses usually governs as to payment of labor and material. Invariably the owner pays the difference between the proceeds of the loan and the cost of the building—if there be any shortage—either to the loan office for general disbursesment, or as the first payment or payments, to the contractor who is erecting the building, thereby securing payment of all claims for material delivered, labor furnished for the erection and completion of the structure; or in other words, when the proceeds of the loan are expended the property will be delivered free from all claims under the Mechanics' Lien Laws. The proceeds of the loan are derived by deducting from the amount of the loan all charges which are customary by the firm making the loan, as firms have different items that they consider necessary for the perfection of the title and expenses incidental to the loan.

The Charges

Some of the items may be enumerated, but they are not to be considered as all the charges, or that all are charged, and are as follows: First and most important, the broker's commission, recording fees, revenue stamps, Guarantee Policies, or continuation of abstracts, and lawyer's examination fees for same; insurance premium, printing of the bonds, Trust Deed and Notes, certification of notes or bonds, sometimes deducting six

months or a year's interest, the same for real estate tax, life insurance on maker of note, rent, insurance, attorney's fees and other incidental items.

The Payments

What is left must then pay for all claims to complete the building free from liens. The number of, and frequency of the payments is dependent upon the financial ability of the contractor to carry the job, and is a matter of agreement. Invariably eighty-five or ninety per cent of the value of the work completed at the period of payments is advanced, and on acceptance of the finished building the balance on the contract is paid upon the delivery of Waivers of Lien, or receipt in full. It is not uncommon for some contractors whose credit is good to present Waivers of Lien for all their contracts in advance of the payments to which they may be entitled.

When the title to the real estate is found perfect, it is well to take a statement from the owner as to all contracts let, and when not let, to take into account the bids from firms, and if no bids, then to estimate the value of this work. This is not only a proper check on the owner, but often protects the loan office and the owner from conflicting interpretation of the Lien Laws in connection with shortages. The contractors are next obliged when calling for payments to make a statement covering their sub-contractors, if any, and the amount for material and labor.

Keep an Eye on Contractors

In all cases it is well to take a receipt in full or Waiver of Lien wherever possible, and at any time during the proceeding. Too much care in watching the claims of contractors and material men cannot be taken, as unfortunately there are unscrupulous contractors who resort to crookedness, both from choice and necessity. Contractors have been known to have material delivered to a building site, then haul it away to another, allowing a material firm to claim their lien on the property to which the goods were really delivered by them. This is most liable to happen on the smaller buildings where shoe-string contractors do the work, and then only when they are on the verge of insolvency. The larger contractors have their reputation at stake, and do not resort to this petty form of deception.

Checking Up On Labor

Labor is of course a hard item to check, and a statement is usually sufficient. In Illinois the labor unions are so powerful, that if the mechanics are not paid for a two weeks' period on pay day, they lay off work, and their pay runs on at full time until they are paid. Naturally the contractor will not expose himself to the added expense, and take chances of the tie-up of the job, to say nothing of a possible fine to the union itself to again become in good standing. When there are no unions it is well to check the payments of the laborers, as the writer can vouch from actual experience that it is not a pleasant sight to have a delegation of labor men visit the loan office asking for their pay. They feel that the loan house not only owes it to them, but is actually liable, even though the loan house had no choice in hiring.

Loan houses who have had experience in disbursement of construction loans, especially in the many large buildings constructed the last few years throughout the United States, have their own system, and as previously stated, have a force of trained men with experience to disburse any loan, either large or small. Extended details of the methods of disbursements may be gone into, which could be a subject in itself, but the items in the main have been mentioned as suggestive of the case required.

Construction Loans Vital to Progress

While a great deal, if not all, of the foregoing may be platitude, especially to those who have made construction loans, in which case disbursements naturally follow. Every construction loan and its disbursement may present a different problem. Customs and laws in different states govern the requisite procedure to cover respective conditions, and the subject may be summed up in the following statement: Experience is the only consistent teacher, and if every loan firm is conscientious, true to the trust imposed upon them by the confidence of the investor and the borrower, construction loans are vital to progress, necessary to the land owner and contractor, and a boon to the investor and the community in general.

National Association of Real Estate Boards

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Chicago, January 2, 1924.

To the Members of the
Mortgage and Finance Division.

Your Division has under way the following activities:

Report of Proceedings — Mailed to all members October 26 to 27. Please notify us if not received. Bulletins on various subjects will follow from time to time, on pages to fit the above binder. Bulletins No. 1 and No. 2 herewith.

Field Survey — Our Divisional Secretary, Arthur E. Curtis, is spending a portion of his time in the field, collecting facts regarding the safety of mortgage investments, through interviews with insurance companies, trust companies and banks, mortgage bankers and realtors.

Questionnaire on Safety of Mortgage Securities — Sent out December 13. Replies are now coming in.

Publicity Service — The facts from this survey will be compiled under the direction of Executive Secretary Herbert U. Nelson and mailed to:

1. Each member of the National Association.
2. Insurance companies, banks, estates, trust companies.
3. 650 newspapers.

Textbook on Real Estate Finance — In preparation by Ernest M. Fisher, Asst. Executive Secretary, National Association of Real Estate Boards, and Arthur E. Curtis, Secretary, Mortgage and Finance Division.

Library — Through the office of the National Association, there will be assembled all available data on mortgages and mortgage bonds. This will include books, magazine articles, addresses at National and State Conventions and mortgage and bond forms in use in offices throughout the United States.

WE WOULD APPRECIATE TWO COPIES OF EACH OF YOUR PRINTED FORMS, AND YOUR PERMISSION TO REPRODUCE SOME OF THEM FOR THE GUIDANCE OF OTHER MEMBERS. COPIES OF YOUR ADVERTISING MATERIAL, ALSO, WOULD BE GRATEFULLY RECEIVED.

Next Meeting of the Division — Midwinter Convention, and installation of officers, at Augusta, Georgia, January 17 to 19, 1924. Attend the meeting if possible. If not, send in any suggestions you may have.

Respectfully submitted,

HIRAM S. CODY, Chairman.

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